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Chartered Accountant

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COMMENT AND OPINION

Examinations

THIS writer has just come of age having written (and passed) his final examinations just 21 years ago. Every year since, at this time, he has become concerned about examinations and the statistical record of results. Even though not now in practice and not very close to student thought and activities, he has heard during all these years the comment that the powers that be are restricting the number of new chartered accountants by juggling with the examination papers or results.

It is interesting to note, therefore, that the Council of The Institute of Chartered Accountants in England and Wales have felt it necessary to make a statement on this subject in late 1949. We quote from *The Accountant,* November 12, 1949,—

> The Council understands that the low percentage of passes in the Institute examinations has given rise to suggestions that admission to the Institute is being regulated by increasing the requirements for a pass.
>
> The Council wishes it to be known that no such policy has been or is being contemplated and that there has been no alteration in the requirements for a pass in any of the examinations.
>
> The Council has been concerned with the large number of candidates who fail to pass the examinations. As the result of statistics prepared for the Examination Committee, the Council is satisfied that the low percentage of passes is due to the abnormal conditions obtaining as a result of the war.

Accounting Problems Arising from Devaluation of Foreign Currencies

THE Research Department of The American Institute of Accountants has issued an interesting pamphlet under this title, which will be largely of academic interest in Canada but it may be useful to those Canadian companies with subsidiaries abroad. The whole tone of the pamphlet suggests that, because of the magnitude of the devaluation (30.5% in many cases), consolidated statements of earnings are going to have to reflect large losses realized during 1949.

Perhaps we may be permitted to wonder a bit about this because these foreign subsidiaries were no doubt organized to do a job assigned to them. So long as they, or their net assets, continue to do that job, one wonders why man-made prices assigned to the local currencies used in their financial statements should cause either a loss or a profit except to the extent that profits previously taken into the consolidated earnings are actually transferred home at a different rate than that used in the preparation of the previous statement.

We would not wish to quibble on this subject but we think it is being given a profundity which it does not deserve. After all, do we not have a very analogous situation right at home without going abroad at all? Our domestic dollar does not now purchase

as much as it used to in terms of our old domestic dollar. Do we adjust our fixed asset values because of that circumstance and do we adjust our depreciation charges to take care of the enhanced replacement costs? Not by a long shot, according to committees of public accountants in all the English-speaking countries.

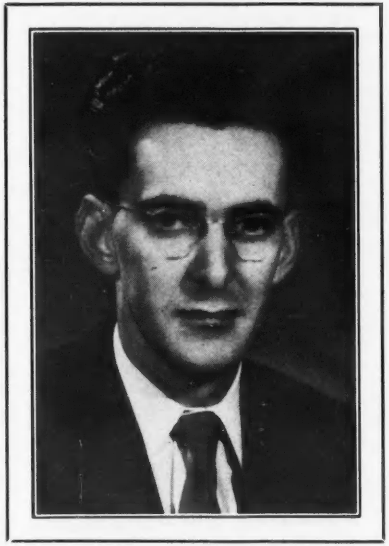
Why then, if a pound or a franc does not now buy what it did before, either in its own country or in North America, do we allow ourselves to become involved with arithmetical gymnastics? As long as we leave the pound in the British Empire, the franc in its country of origin, or a Canadian dollar in Canada, what difference does its devaluation at home make to a foreign parent company unless an actual exchange into the local currency of the parent is made? If there are no transfers of cash representing profits from the subsidiary to the parent, how has the situation been changed by a government pronouncement?

We do not suggest that these comments indicate the ultimate in our thinking. We may be quite wrong. We do wonder, however, if, just because we are talking about foreign currencies rather than domestic currencies, we have not let the economist in us ride herd over our accounting principles! Have we any supporters? Sir Stafford Cripps certainly shook the world on September 18, 1949; it seems to us that, accounting-wise, we may still be a little off balance. Do we ordinarily take losses before assets are disposed of and before we are able to form a good opinion of their value upon realization in the ordinary course of business?

Those who feel that these suggestions are pure heresy might be reminded that a United States parent company can now sell its Canadian subsidiary to a group of Canadians, and assuming the same price as would have prevailed a year ago, find itself, devaluation of the Canadian dollar notwithstanding, with more United States dollars than it would have realized a year ago, under the same conditions pertaining to a conversion of the proceeds. The reason is that the vendor, if not permitted to export the proceeds in funds, may switch from his private investment into certain Canadian marketable securities which have ready markets in the United States as well as in Canada. He may then export these securities for sale in the United States. The differential between the Canadian and United States dollar quotations for these securities has narrowed during the past year. If the purpose of a consolidated statement is to disclose facts to a potential United States investor, one might suggest that, despite devaluation, all Canadian subsidiaries' accounts should be written up, not down, in any process of consolidation with a United States parent.

We end, however, and we think appropriately, by repeating the legal axiom that "Hard cases make bad law". Have we made out a fair case or are we really heretic?

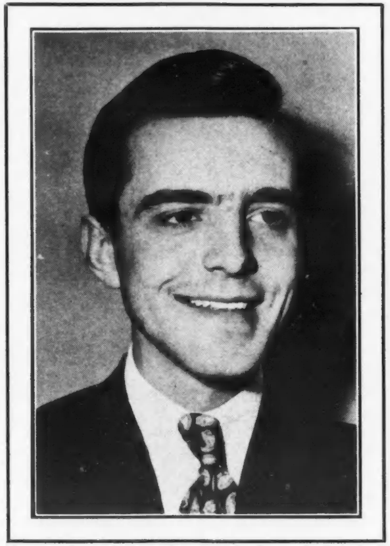
DOMINION PRIZE WINNERS IN 1949 EXAMINATIONS



John Woolcock, Jr.

(*British Columbia*)

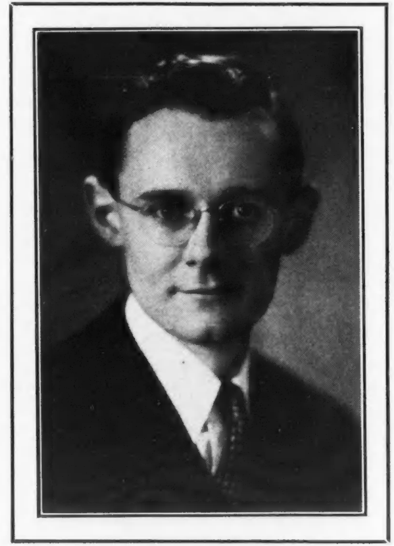
Silver medal and cash prize of $25 for highest standing in Canada in the intermediate examination



Fred L. Norwood

(*Ontario*)

Gold medal and cash prize of $50 for highest standing in Canada in the final examination



Peter John Taylor

(*Quebec*)

Silver medal and cash prize of $25 for second highest standing in Canada in the final examination

Accounting for a Wholesale Distributor Of Newspapers and Magazines

By Morris and Bernard Goodman,
Chartered Accountants

A case study in auditing procedure

DESCRIPTION OF BUSINESS

PUBLISHERS of newspapers and magazines have various methods of getting their publications into the hands of the reader. One of the methods used is the distribution through independent wholesale distributors. The latter provide delivery and promotion service to retailers in their own cities, and also operate truck routes to service suburban areas. Certain customers outside the city are serviced by the wholesaler, either by direct shipments, or shipments by publishers direct to the wholesaler's accounts, on the basis of dealer allotments supplied by the wholesaler who adjusts orders, handles returns and collects the accounts.

In over 1,250 cities in the United States and Canada, corporations have been organized, sole proprietorships and partnerships have been established, to carry on the business of independent distributors of the many newspapers and magazines published on the North American continent and elsewhere throughout the world. The majority of the corporate entities are private corporations, and shares are usually held by not more than six individuals.

The primary function of the wholesaler is to secure and maintain proper dealer outlets for the publications he represents. The distribution of newspapers and magazines involves a highly technical and well organized operation with management experienced in all phases of the business. In some cases the owner, partners, or stockholders of the corporations are actively engaged in the management, but in many instances, in more extensive operations, the principals have delegated management responsibilities to capable men or women who have grown up with the business.

In many cases, premises used in the operation of the business are rented, but many distributors have erected their own warehouse and office plants designed to fit the special requirements of the business in respect of receiving, warehousing, shipping, garage and truck repair, and ample offices required to carry out the necessary accounting and statistical work.

Delivery, sales, returns and accounting systems must be modern, and mechanical equipment is used as much as possible.

Method of Operation

The wholesaler operates as follows:

(a) Newspapers and magazines are received from publishers daily, weekly,

monthly, quarterly and annually. These shipments by the publishers to the wholesalers are scheduled so that the publications will be placed on sale on regular "release" dates. Shipping costs are always absorbed by the publisher.

(b) These periodicals are ordinarily purchased on a fully returnable basis and are distributed and billed to retail dealers on the same basis. The main reason for this consignment basis is that the publisher wishes the advertiser to pay for advertising on the basis of copies actually sold to readers. In some cases, periodicals returnable to publishers by the wholesaler are limited to a certain percentage of the original amount shipped, and the wholesaler enforces the same conditions on the retail customers.

(c) Collections are made of city retail accounts by presentation of weekly statements by collectors. The weekly statement is a complete summary of all newspapers and magazines delivered during the week, returned during the week to the wholesaler, balance owing at beginning of week, cash paid, and balance end of week. Bills usually cover the period Sunday to Saturday inclusive. Certain charge accounts pay monthly by cheque even though weekly bills are presented. Country accounts receive monthly statements and must settle their accounts promptly. Customers are billed for express charges on shipments they receive.

(d) The returns department handles unsold copies returned by dealers and controls and checks amount of credit allowed to dealer. Covers or heads of newspapers and magazines are returned to publishers for credit. To guide dealer in making returns each week, a printed form showing publications to be returned that week is mimeographed by the wholesaler and sent to dealers in advance. Stripped newspapers and magazines, some of which are mutilated to avoid re-sale, are sold weekly to wastepaper dealers.

(e) Wholesalers require competent staff to promote and supervise dealers' merchandising and display to effect largest possible net sales, and the wholesaler must co-operate with the publishers in all advertising and sales promotion operations. Wholesalers maintain elaborate records to show the quantity of each issue (newspaper and magazine) drawn and returned by each retailer. These records are checked by publisher's field representatives and are the basis for continued good relations between wholesaler and publisher.

(f) Distributors usually operate their own fleet of trucks for delivery, collection and promotion work, and drivers are as a rule accompanied by one assistant, called a "jumper".

(g) The wholesaler with adequate warehouse facilities usually prepares separate bundles covering each dealer's magazine order, instead of delivering loose copies. Obviously, this speeds up delivery.

(h) Office staff payrolls, because of the large volume of billing, accounting and statistical work, involve expenditure which is in excess of amount expended in other wholesale businesses.

(i) A competent assistant manager is required to take over full responsibilities in the event of absence of manager.

(j) A formal contract usually establishes and outlines the nature of the agency relationship between the publisher and the wholesaler, and some publishers require cash deposits to secure payment of account.

(k) It is important that the system be so designed to ensure that all magazines and newspapers delivered to dealers are billed to the dealers at the proper price, on the proper day. Also dealers must be credited properly for returns, which have been received in good order, fit for return to publisher.

The receiving and purchase system in

force also ensures that payments are made only for goods received, at the proper price, that all returns are properly charged back to publishers, and that returns are credited promptly by the publisher.

Quantities shown on magazine and newspaper billings to the retailer, subsequently transferred to weekly statements, are posted from loose leaf distribution records or route boards for newspapers.

To ensure that extensions and footings of these bills to retailers are correct, the total distribution of each publication for that day is multiplied by the respective selling prices and this figure must be in agreement with total billings, as shown by individual invoices. Usually each route is balanced separately. The wholesaler under review has twelve routes.

After the delivery to dealers is made from total order received from publisher, very few copies are left over. These are placed in custody of assistant manager and are sold only to dealers who require a few extra copies and who come to the office for these copies. Bills are issued for this purpose as no cash sales are permitted.

The manager receives a report of each distribution showing the disposition of the complete order received from publisher. This report indicates copies delivered to each route and left-over copies. He makes a count of left-over copies.

As it is difficult to reconcile quantity of returned publications from dealers with returns to publishers, the office staff are instructed to examine carefully the large return slips. Since these are posted to statistical records, any abnormal items come to the attention of the person who regulates orders.

Detection of Fraud

Gross profit tests disclose any apparent shortages. When these occur, the manager reviews the operations to determine possible methods which may have been employed. Often there may be collusion between a dealer who pads return slips, and the clerk in the return department. As it is rather difficult for a driver to dispose of surplus copies in warehouse, which are kept under lock and key, and since perpetual book inventories are maintained controlled by physical inventories, there should be no stock shortages.

If stock is stolen before a delivery is made to dealers, it would show up in a shortage of bundles, because if the original shipment from a publisher amounts to 5000 copies and 4972 copies are required to make deliveries to various routes, a loss of three or four bundles of fifty magazines each will become apparent.

Vigilant management is required to make daily tests of the various operations, as the system must be so arranged as to prevent temptation on the part of any staff member.

Pertinent Data

The client corporation under review in this case study operates a business with sales of $1,000,000 approximately, and carries on its business in a city with a population of a million. However, there are other independent wholesale distributors located in the same city. This client uses leased premises.

They have 1000 customers located in the city and suburbs, classified as follows:

Type	No.	Accounts Payable
Cigar & Stationery Stores	800	weekly
Newsstands	138	"
Drug Stores	50	"

Departmental Stores	5	monthly
Chain Cigar Stores	2	"
Hotels	5	"
	1000	

There are also 150 customers located outside the city and suburbs who are billed for the four or five week periods, and who pay bills once a month, although the shipments to these accounts are made weekly by express.

Magazines, newspapers and books are purchased from forty publishers and 500 different items are handled. Magazines and books are delivered three times a week, newspapers are delivered daily, including Sundays.

For practical reasons, the fiscal year consists of 52 or 53 weeks ending on the closest Saturday night falling at the year end. Books are closed periodically during the year on a four or five week basis. This closing method is logical because bills to customers end on Saturday, newspaper publishers and certain magazine publishers charge on that basis and inventories can easily be taken because most returns to publishers are made Saturday morning. Inventories are, therefore, at their lowest.

The audit engagement is recurring; annual audits have been made in prior years. We make a complete survey of the company's accounting system and of its system of internal control prior to the auditing date. Suggestions for improving the system are submitted in a separate letter to the management of the company.

MAJOR ACCOUNTING POLICIES

The company's chief accountant prepares periodic balance sheets and profit and loss statements, copies of which are forwarded to us during the year and reviewed for unusual items or problems which require discussion during the year. Profit and loss statements are prepared in detailed form showing cumulative and periodic figures for the year under review.

Customer's bills must be paid on due date. If not, further shipments are stopped. The reason for this is obvious, as wholesalers must remit to publishers promptly and accounts cannot be carried, as there is a danger of complete loss in the event of bankruptcy. Cash sales are not permitted to dealers. All shipments are billed and charged to accounts receivable, including all re-orders required by customers.

A reserve for bad debts is carried, but loss experience is insignificant. It is also necessary to set up a reserve for unearned gross profit on amounts included in receivable covering possible returns of consignment merchandise fully returnable.

Perpetual inventory records are maintained to control the sale of books, and records are reconciled quarterly with physical inventories. To expedite preparation of inventory sheets, the forms used by the stock-keepers are prepared in advance to show names of publications, and quantities are filled in. These inventory sheets are then placed in a loose leaf binder and extended and totalled by the office staff. Merchandise in transit covering publications billed by publishers and received subsequent to closing date are also included in the inventory. Inven-

tories are always carried at cost.

Receiving records are written up daily and each publisher's shipments are recorded in a separate section to facilitate checking with publisher's invoices and statements. Receiving records provide for insertion of distribution dates of publications.

The general ledger is classified in balance sheet and profit and loss form as statements are taken off by the chief accountant direct from the general ledger.

Accounts receivable control account is balanced weekly to eliminate errors being carried forward. Boston ledgers are used which combine sales journal and ledger. This system reflects transactions of a dealer on a single line across the page. Detailed lists of outstanding accounts receivable, appropriately aged, are prepared quarterly and delinquent balances at end of each week are scrutinized carefully.

The assets recorded in fixed assets and delivery equipment accounts are carried at actual cost. Detailed ledger accounts are maintained for each truck or automobile to show cost, and status of reserve for depreciation. Depreciation is provided on trucks at maximum rates permitted by taxation authorities. The trucks and automobiles are compared annually with these records to verify their physical existence. Records are maintained for each car to record mileage, maintenance expenses including depreciation and operating cost per mile. Fleet auto insurance is reviewed several times a year to see that all trucks are adequately insured and that adjustments are made for "trade-ins" and new acquisitions.

Details of office and warehouse equipment, furniture and fixtures, are maintained in subsidiary ledger showing cost and reserve for depreciation, and are checked annually with a physical inventory.

Prepaid expenses are recorded at cost and are amortized on a periodic basis.

The imprest petty cash system is used, reimbursed weekly and chief accountant counts cash on hand and balances total fund weekly. Salaries are paid by cheque only. Cash is reconciled and deposited daily.

Accounts receivable ledger postings are made every morning direct from collectors' reports which are kept in a safe overnight until postings are made next day, and before being posted to ledger the additions are again checked to prevent insertion of sums by unauthorized persons.

All disbursements, except minor disbursements from petty cash, are made by cheque and no wages are paid from petty cash.

It is not the company's policy to invest its surplus funds in marketable securities to any great extent. Temporary investments are made in government securities but are sold when cash is required. All bond transactions are handled by bank which furnishes purchase and sale memoranda.

Investment income and interest on deposits are for convenience recorded on a cash basis but all other transactions are recorded on an accrual basis of accounting.

A voucher system is not required in this business, but two separate control accounts are maintained for publishers and other trade liabilities. Of special significance in recording of liabilities is the importance of careful computation of accrued liabilities arising by virtue of the receipt of publications prior to each balance sheet date, which are not billed by publisher until the following period.

Capital stock is carried at par value and previous examinations have revealed that cash has been paid into the corporation for the entire value of the stock outstanding.

Earned surplus represents accumulation of net profits less dividends paid since commencement of business, and an annual dividend policy is in force to avoid taxation of surplus accumulation beyond the needs of the business.

The major accounting policies are outlined so that we can determine whether they are being followed consistently, and that they are in accord with accepted accounting principles.

The work incidental to the annual audit is spread over the fiscal year as follows:

(1) Review of system of internal control — 1 senior and 1 assistant for one week in October;

(2) Confirmation of accounts receivable — 1 senior and 2 assistants for one week, namely, first week in December;

(3) Observation of physical inventories — 1 senior on last day of fiscal year;

(4) Cash count — 1 senior the last day of fiscal year;

(5) Final work — 1 senior and 2 assistants for one week after close of fiscal year, starting about January 20th;

(6) Review of periodic balance sheets and profit and loss statements — 1/2 day each month— senior and partner;

(7) Review of copies of all corporation tax returns prepared by chief accountant (as received from client).

Client's staff prepares all working paper schedules required by us on our forms, headed up appropriately by us.

The audit is therefore expedited to a considerable extent and we are free to devote all energy and thought to auditing procedures and preparation of our audit reports, instead of routine mechanical work on schedules which can easily be drawn up by the client's staff.

Internal Control

We review the permanent file of working papers in connection with the system and discuss with the chief accountant changes in system during the year under review and reasons for changes. It is necessary to observe each operation in effect by following through a transaction and procedure from beginning to end and discussing it with the client's staff responsible for the work.

Cash Receipts: System

Cash receipts are classified as follows:

1. *Received by cashier*
   - (a) Collections made by company drivers,
   - (b) Payments of accounts by customers who visit the office,
   - (c) Payments of collection shortages by company drivers,
   - (d) Payments by employees on account of loans.
2. *Received by mail*
   - (a) Payments of accounts by customers who pay by cheque or money order,
   - (b) Refunds from publishers and receipts for sale of wastepaper, bond interest, etc.

Collections made by company drivers are supported by detailed collection sheets. Collectors make entries on these sheets as they make the rounds of dealers who pay by cash or cheque. No returns of publications are deductible, even though they are picked up on collection days, and weekly statement presented to dealer is payable in full, or partial payment is accepted in special circumstances. During the course of the day, collectors purchase post office or bank money orders to reduce hold-up risk and this also saves the time of the cashier who checks the collection. The weekly statement is receipted by the collector and turned over to the customer. When on certain days a check-up of dealers' unsold copies of publications is made, the collection sheets, with names of dealers in route order, are used. This saves collectors' time

and also serves its purpose as promotion material.

If amount turned in is in excess of total shown on collection sheet, difference is credited to the driver because this may represent item collected from customer but not listed. Later in the week, when attempt is made to collect apparent amount outstanding, and on presentation of receipted statement by customer, a journal entry is made charging driver and crediting customer. After all adjustments, only credit still appearing is refunded to the driver, as it represents his own funds. A shortage which exists because cash is less than amount shown on collectors' reports is charged to the driver and must be paid by him. The above differences, though insignificant in amount, must be handled systematically.

Total collection turned in by driver is listed in subsidiary cash book, split up as follows if cash is over —

Cr. Accounts Receivable	$1,000		
Cr. Collector	5	1,005	Total

If cash is short, entry is —

Cr. Accounts Receivable	1,000		
Dr. Collector	5	995	Total

Payments received from customers who come to office are not frequent, but if this occurs, bill is receipted and item is immediately entered in the subsidiary cash book. The same procedure is applicable to payments by collectors of shortages and a special form of receipt is issued from a prenumbered duplicate receipt book.

The mail is opened only by the manager who places an endorsement stamp on each cheque or money order.

A bank deposit slip is made up first thing every morning and covers all receipts of the previous day which are kept in a special *Brinks* safe. After the deposit slip is reconciled with total cash, it is replaced in the safe until called for by *Brinks* express representative who takes the funds to the bank and returns receipted deposit slip to client the next day.

Cash Receipts: Auditing Procedure

1. Determine that receipts are deposited daily.

2. Inquire whether collectors' reports are placed in fireproof safe overnight after adding machine tape of detailed items is attached and cash has been checked. This prevents unauthorized persons from inserting sums which may have been pocketed. Ascertain that ledgerkeeper checks adding machine tape before posting to accounts receivable ledger the following day.

3. Ascertain whether collectors' *over and shorts* subsidiary ledger is in agreement with controlling account and that payments to collectors or receipts for shortages are cleared weekly.

4. Ascertain whether manager compares daily deposit with cash book entries.

5. Compare for one week daily receipts from charge accounts with summary prepared from entries in cash columns of accounts receivable Boston ledger.

6. Foot and cross-check cash receipts book for one month.

7. Reconcile total deposits shown by bank statements with receipts shown by cash book for one month.

8. Trace deposits of receipts from cash receipts book to bank statement for one month.

9. Check postings of all totals in cash receipts book to general ledger for one month.

10. Check postings from collectors' reports and subsidiary cash book for one week to accounts receivable ledger.

11. Compare subsidiary cash book daily totals transferred to main cash book for one month.

Cash Disbursements: System

Cash disbursements are classified as follows:

1. *By cheque*
   (a) Payment of publishers' weekly or monthly statements and liabilities incurred for miscellaneous expenses,
   (b) Special items, customers' refunds,
   (c) Payments to custom brokers for clearing foreign shipments which are immediately charged back to publishers through the cash book,
   (d) Reimbursement of petty cash fund,
   (e) Reimbursement of payroll bank account.
2. *By Currency — Petty Cash disbursements from imprest fund*

Payments to publishers who submit weekly statements of account are ordinarily paid in full, i.e., a cheque is issued for publications charged for one week. No deduction is made for returns in transit. This follows the same pattern expected by wholesaler in collecting his bill from dealer. Quantity shown on statement is, of course, checked to receiving records and extensions and calculations are verified. Entry is then made in the purchase journal.

Payments to publishers who submit monthly statements are paid in full, and here again no deduction is made for returns in transit except in case of publishers who are handling special items or whose credit standing is not well known.

Miscellaneous expense bills and brokers' statements are paid weekly. Voucher cheques in duplicate are prepared after the invoice is signed by the chief accountant. The duplicate cheque is stapled to the invoice or statement. All receiving slips properly executed covering purchase of miscellaneous supplies are attached to the expense invoices. Reimbursement of petty cash fund cheque is made payable to cashier and is supported by petty cash envelope ruled on its face to reflect proper analysis of expenditures for distribution in cash book. Petty cash vouchers are stapled and placed inside envelope. Cancelled cheques and bank statements are received directly from the bank by the chief accountant, and the bank accounts are reconciled by him. Reimbursement of payroll bank account is explained later.

Cash Disbursements
Audit Procedure

(1) Determine that vouchers are approved for payment only if supported by proper documents (expense bills and payments to customs brokers) and that publishers' invoices or statements are paid only after comparison with receiving records and "price book" of publications. Also determine that extensions and footings are properly checked. Because of frequent price changes it is necessary to maintain an alphabetical list of publications received from each publisher which reflects cost and selling price of each item handled.

(2) Determine that invoices are properly cancelled when approved for payment so as to prevent re-use.

(3) Determine that cheques are not made out to "cash".

(4) Determine that bank accounts are reconciled periodically by the chief accountant.

(5) Foot and cross-foot cash book for one month.

(6) Check postings of all totals with general ledger for one month.

(7) Trace transfers from general account to payroll account.

(8) Compare cheques issued for one month with cash disbursement book. Names of payee, amounts and endorsements are examined. Then compare duplicate cheque with supporting vouchers attached, with cash book entries for one month; see that all supporting documents are attached and that each invoice or statement is properly verified as to receipt of goods or services, prices, extensions, etc.

All payments, with the exception of petty cash, payroll and refunds to customers, must be processed through accounts payable ledgers. Refunds must be supported by written request from the customer. Refunds for one month must be traced to accounts receivable ledger or the subsidiary customers' deposits ledger.

Payroll transfers from general account to payroll account must agree with net payroll shown in payroll book.

Petty cash cheques must be supported by properly prepared voucher envelopes. Inspect disbursements for petty cash for one month and see that vouchers are properly mutilated, that no wages are paid by petty cash, and that refunds to drivers are properly handled, as explained in cash receipts section.

Accounts Receivable and Sales System

City Accounts

Weekly statements are prepared by billing clerks in duplicate for all city accounts. This is merely a copy of the summarized totals in blotter, and shows quantity and value of each newspaper delivered during the week and totals of each magazine delivery. Customers' return slips, after being checked by receiving department for quantities and by the office for extensions and totals, are posted direct to the ledger. From ledger the return is then posted to the statement. The total gross charge is then posted to columnar loose leaf accounts receivable ledger. Short margin sheets are used to give the desired room for accommodating a specific period of say six months. This combined ledger and sales journal is in route order.

The ledger gives the following information:—

Name	Balance	Cash	Balance	Gross Charge w/e	Returns w/e	Balance
	July 31:	Aug. 2-7:		Aug. 7:	Aug. 7:	Aug. 7:
Smith	$10.00	$10.00	....	17.00	2.00	15.00

Returned cheques and refunds of credit balances are entered in red ink in cash column and bad debts column inserted at end of year only.

Gross charge column per ledger for each weekly period is cross-checked with gross charge column in blotter.

The use of return column in ledger serves as a check on subtractions made in weekly statement where returns are deducted from gross charge.

Although journal has a return column, sales account is credited with "net" sales only.

Duplicate magazine delivery invoices are not used but are mimeographed as required for specific deliveries. July 31st balance, paid in full as above, is not carried in *previous balance* section of statement, nor is cash collection shown on customers' statement of August 7th.

If a partial payment is made, then balance beginning of week is shown.

Cash collected is posted to ledger di-

rect from drivers' collection sheets or from subsidiary cash book. Drivers' collection sheets are added when first brought in and this total must agree with cash turned in or differences charged or credited to driver.

Each ledger page is cross-balanced and all pages are summarized for each week and then for 4 or 5 week periods. The summary then gives the following information:

Balances — July 31st

Add: Net Bills — Aug. 1-28 (Dr. Accounts Receivable — City Accounts. Cr. Sales Account.)

Deduct: Cash (Aug. 1-28) This must agree with Cash Book.

Balances — August 28th

The blotter lists city dealers' names in route order and records quantity of daily newspapers delivered and total value of these papers. Space is provided for insertion of charges for magazine deliveries and weekly service charges. The blotter is cross-balanced at end of each page. Weekly service charges are totalled for four or five week period and journal entry is made debiting sales account and crediting "income from delivery charges".

Wholesale Accounts

If a wholesaler is handling the complete print for certain magazines in a large territory on behalf of a publisher, he makes shipments of large quantities to other wholesalers. A special type of invoice (prenumbered) is used in duplicate. Original with full details is sent to customer and duplicate is filed on a binder. The usual type of sales journal is used for this purpose and returns are confirmed by use of credit notes. These accounts receive monthly statements on regular statement forms suitably ruled.

Country Retail Accounts

There are two methods of billing these accounts:

(1) Publisher ships direct to wholesaler's customer and furnishes details to wholesaler who then charges his customer.

(2) Wholesaler ships by express from his own premises and forwards an invoice with each shipment. Monthly statement is prepared in duplicate and entries are made in the same manner as explained for city retail accounts, except that Boston ledger is maintained on a monthly basis.

Re-orders and Pick-ups

Dealers return magazines and newspapers for credit weekly. However, each week a redistribution of magazines is also made, handled by the driver on his regular collection route. The redistribution involves taking back copies from some dealers and giving other dealers additional copies.

The driver is furnished with charge slips and credit notes in duplicate and returns to the office with these slips which balance one another. The accounting office then makes the appropriate entries on weekly statements. No cash transactions are permitted for redistribution. Redistribution is required by publishers to ensure best possible sale of publications.

In some cases the number of copies taken from some dealers is in excess of number of copies given to other dealers and the following situation arises:

Dealer pays collectors	$1,000.00
Collector takes 100 magazines from dealers—	
Issues credit notes for	$25.00
Collector delivers 50 magazines to other dealers	
Issues charge slips for	$12.50
Collector checks in as follows:	
Cash	$1,000.00
Magazines brought in 50	
Value $12.50 covered by	
net credit notes for	$12.50

In most cases, however, copies picked-up are handed to other dealers so that charge slips brought in equal credit notes issued, and no publications are brought back to the office.

Trade Creditors: System

Purchase Journal, Purchase Return Journal, Accounts Payable Ledger (Publishers)

Publishers of newspapers, as a rule, send weekly statements to wholesalers. These statements show the quantity and cost of daily and Sunday papers shipped, and the quantity and value of papers returned for credit, as well as cheques received from the wholesaler. The beginning and ending balances are, of course, shown.

As explained previously "headings" of unsold papers are returned weekly by parcel post.

After being sorted and counted, return slips are made up for insertion in the parcel. A separate return book is usually kept for each publisher. This is a bound book with duplicate slips, one of which remains in the book. Only the name of publication, the issue, and quantity are shown on the original which is sent out. The duplicate is then extended at cost (by reference to price books) and totalled. An entry is then made in the returns journal to show date, name of publisher and amount charged to publisher's account.

The same procedure is, of course, adopted for magazines (covers) returned. The returns journal is also used to record other miscellaneous charges to the publisher based upon agreement. For example, a wholesaler often clears bulk shipments and arranges rail routing to other cities on behalf of publisher. Interest on deposits may be credited by publisher direct to the statement, in which case it is necessary to charge item through the returns journal which has a separate column for this purpose.

The gross charge for the weekly "draw" of newspapers is credited to trade account through entry in purchase journal.

Returns and other debits are recorded through return journal. Cash paid is, of course, charged from cash disbursements book along with payments to custom brokers, applicable to specific publishers' account. Some publishers send refund cheques covering charges made by the wholesaler for services.

A publisher often does not allow all credits claimed, if copies are returned too late. However, if a publisher neglects to credit long outstanding return items, letters must be written ascertaining reason therefor.

If entries are made each week, theoretically the balance shown as owing by the newspaper publisher at end of four week period should agree with ledger account.

But here is what happens in practice:

(1) Amount of returns credited by publisher may be greater or less than amount charged in ledger account. If not in agreement, reason must be ascertained, and if publisher's calculation of returns is correct, based upon details supplied by a publisher, an entry covering purchases for the following week is increased or decreased. For example, suppose the wholesaler extended his slip erroneously and charged $10 to publisher and correct calculation reads $9 — $1 adjustment is made and *vice versa.*

(2) Certain returns may have been received by publisher but not yet credited.

(3) Certain returns may be in transit.

(4) Cheques may be in transit.

As a final proof of accuracy of entries, the following reconciliation is attached to final statement for the fourth or fifth week in the period, or to the magazine publishers' monthly statements.

Balance per publisher's statement-ment — Jan. 1/49	$1,000

Deduct:		
Dec. 24/48 Cheques in transit	$400	
Dec. 24/48 Returns in transit (details)	50	
Dec. 22/48 Miscellaneous — brokerage charge	10	460
Balance per Ledger — January 1st 1949		$ 540

Magazine publishers usually submit monthly statements, but the principles explained above apply as well, except that whereas entries for returns and cash transactions are made weekly, entry for month's purchases are made only once a month, and the simplest way to adjust "return slip" differences is to note on copy of return slip, amount allowed, and on publisher's statement indicate by plus or minus notation what will be added to value of gross draw. This is to avoid numerous journal entries. Often, a wholesaler re-ships certain copies to other wholesalers as instructed by publisher. These must be charged to publisher in the same manner as returns. In addition to this, subscriptions taken by the wholesaler are charged by the publisher and must be added to month's purchases.

The majority of publishers desire that wholesalers pay the monthly or weekly statements rendered in full, making no deduction whatsoever for returns shipped by the wholesaler but not yet credited by the publisher. If, however, a cheque has been issued by the wholesaler, and is still in transit, a deduction is usually made because of such payment. Most publishers have a notation on their statement to the effect that their bills are payable in full as per balance shown.

Of course, wholesalers also deal with some smaller publishers, who, it is found by experience, are not consistent as regards the accuracy of their statements or the promptness in crediting returns. In cases of this kind, the wholesaler deducts all returns to date of payment.

Trade Accounts Payable: Auditing Procedures

(1) Check postings to general ledger control from purchase journal, purchase return journal, cash receipts and cash disbursements book for one month.

(2) Inquire whether reconciliations are attached to all monthly statements and weekly statements to show tie-up between bill and ledger.

(3) Ascertain whether letters are written to publisher when returns, etc. are not credited promptly or when overcharges have been made for publications received, etc. and if the latter, determine whether debit slip is forwarded to publisher.

(4) Determine that trial balance of subsidiary ledger is prepared each month and agrees with general ledger control.

(5) Pick out several of the larger statements for one month and check the following:

- (i) Prices to price book,
- (ii) Differences between return charged to publisher, and amount credited, ascertain reasons,
- (iii) Reconciliations between statement balance and ledger balance,
- (iv) Quantities of publications charged against receiving records or inventories, at end of period.

(6) Ascertain that all invoices and statements for December are properly approved, for:

- (i) Receipts of publications,
- (ii) Footings and extensions,
- (iii) Prices.

Gross Profits Test: System

Purchase journal records purchases at cost and selling price for both newspapers and magazines.

Bookkeeper who performs this work must refer to price book, which shows the cost and sales price in alphabetical order for each publisher, of every publication distributed. Selling price totals

are not posted to general ledger but are used as memos only for the above test.

The recording of purchases at selling price enables the client to compute the percentage of mark-on, and so arrive at the gross profit which should be earned on sales. This is compared with ratios shown on profit and loss statements.

An alternative method of testing gross profits for smaller agencies is to compile figures for each publication sold showing net copies distributed and multiply this by profit earned on each publication.

Number of copies distributed is obtained from receiving book and returns are computed from return slips sent to publishers for period under review. When this method is used, profits are usually grouped to show what is earned in handling each publisher's account and this information is very valuable.

Receiving records show date each publication is received and on same line date publication is distributed.

Inventory quantities at beginning and end of four or five week period can be ignored as most publications are returned promptly to publishers each Saturday.

Gross Profits Test: Audit Procedure

Whatever method is in effect, we compare statistical reports with gross profit shown on profit and loss statements and make enquiries to ascertain reasons for any differences.

If the first method described above is used:

(1) Check the posting of the cost and selling price columns to the original records for one month.

(2) Check footings of purchase journal and calculation of gross profit and compare with profit and loss statement for that month.

(3) Check gross profit ratios for the full year comparing cumulative figure with monthly averages and ascertain causes for variance between previous years' gross profit.

If a difference of more than one-half of 1% exists, discuss with the management the possibility of fraud and if authorized, make special investigation of sales and returns system. Often errors in computation of inventories and accruals may distort gross profit figures in the profit and loss statement. Therefore, it is sometimes advisable to await results of following months' operations before arriving at conclusion that fraud exists.

Only one sales account is maintained in general ledger as a result of postings from sales journal. This of course reflects "Net Sales" and includes delivery charges to customers which are charged weekly and are totalled in blotter. Since the purchase journal and purchase returns journal reflects purchases and returns of magazines as well as newspapers, and inventories can easily be analyzed the same way, there is available a "cost of sales" account for each department.

To arrive at "net sales" of newspapers, it is necessary to calculate at selling price the net quantity sales of newspapers by reference to the above schedule. A journal entry is then made as follows:

Sales Control	Dr.
Newspaper Sales	Cr.
Magazine & Book Sales	Cr.
Delivery Charges to Customers	Cr.

Loss on Unsold Publications Not Returnable to Publishers

Sometimes a publisher does not allow full returns but requires that the wholesaler give full credit to his dealers. The return clerk segregates these publications when checking returns from dealers, but instead of shipping to publisher, merely lists the quantities on a special form. These are extended at cost price by the office and a journal entry is then made charging amount to the expense account

and crediting purchases account. This item is shown separately on the profit and loss statement so that the wholesaler can see what this cost amounts to and so make representations to the publisher, if necessary, for a special annual allowance.

Trade Accounts Payable: System

Miscellaneous Suppliers and Service Organizations

All invoices are approved by the individuals receiving the goods or services. Footings and extensions are checked. A separate purchase journal is maintained and a separate accounts payable subsidiary ledger is required. Each month a trial balance of this ledger is prepared and reconciled with control account. All invoices are paid daily upon receipt, or if weekly or monthly statement is received and terms arranged on this basis, payments are made promptly so that any purchase discounts can be taken.

Trade Accounts Payable: Auditing Procedures

(1) Determine that trial balance is taken each month,

(2) Note age of any old items outstanding and secure explanations,

(3) Check postings to general ledger control for one month from books of original entry,

(4) Check one month's entries in purchase journal to appropriate invoices and see that they are properly approved.

Payroll: System

Employment is effected through manager or assistant and rates of pay and subsequent changes are communicated in writing to payroll clerk.

Employees punch time cards and payroll clerk prepares weekly payrolls by computing earnings and deductions, and posts in one operation by hand to individual earnings records, payroll sheet and payroll cheques.

A cheque is drawn for the net pay from general account and transferred to payroll bank account.

Payroll bank account is reconciled by checking against payroll sheets which show cheque number opposite each cheque.

Payroll totals shown in general ledger for cumulative period are reconciled with gross pay shown on individual earnings records and tax returns are prepared and reconciled annually with total payroll for the year. Tax deductions at source are also reconciled with remittances to tax authorities.

Often the client requires the services of men who own their own automobiles, to assist in making certain deliveries. Payments for this service charged to "car hire" are reflected in payrolls, but are not subject to tax deductions, etc. at the source. Payments are made on the basis of a certain rate for each delivery.

Payroll: Auditing Procedure

(1) Obtain time cards for one week in November or December and note whether time clock is used properly.

(2) Total hours and compare with total shown on payroll sheet and check extension of hours and rate. Ascertain that regular time and overtime is paid at appropriate rate by reference to manager's employment records.

(3) Check all deductions at source to appropriate records.

(4) Foot and cross-foot payroll sheets for week under review.

(5) Compare cancelled cheques with payroll sheets for one month, examining endorsements and check reconciliation of bank balance for that month.

(6) Investigate cheques that are outstanding for more than one month.

YEAR-END AUDIT PROCEDURES

Cash in Bank

The wholesaler maintains two bank accounts, a general account and a payroll account. Verification of cash in bank is made about January 20th.

(1) Obtain confirmation from banks of year-end balance on deposit.

(2) Check bank reconciliations prepared by client, by inspection of cancelled cheques for the last month of year, obtained directly from bank, and confirm deposits in transit (recorded in cash book) by direct communication with bank, ascertaining exact date deposited.

(3) Investigate cheques that have been outstanding more than one month, and make necessary enquiries regarding same.

Cash on Hand

On Saturday night, last day of fiscal year, count cash in safe which will be deposited on Monday. Saturday receipts are usually very small, consisting mainly of customers' cheques. See that total agrees with cash book and this item must agree with deposit in transit, shown on bank reconciliation, and subsequently listed on bank confirmation letter.

Company accountant must be present at this count and simultaneously petty cash imprest fund is checked and details of vouchers, I.O.U.'s, etc. are listed. Petty cash fund is never in excess of $200, but it is important to see that no shortages exist.

Marketable Securities

These temporary investments consisting of registered government bonds are usually held by bank in safekeeping. Direct communication with the bank which furnishes full details of the securities is considered sufficient verification. Bank interest received during the year is checked with appropriate records.

Accounts Receivable: Audit Procedure

Confirmation of Accounts

(1) All receivables are confirmed using negative form of confirmation. This work is done as at the last Saturday in November which is used as the closing date for November.

(2) As all weekly statements are prepared only in duplicate, one copy being handed to collectors on Monday and one copy remaining in the statement binder, a special form letter is drawn up to cover negative confirmation of city retail accounts. We check weekly statement balances to Boston ledger balances.

(3) All other statements are mailed; therefore we take all monthly statements to country dealers and sub-wholesale accounts.

(4) Statement balances are compared with balances in Boston ledger, and control accounts are reconciled with trial balance of receivable balances as at the same date.

(5) Employees of client under our supervision insert letters and statements in envelopes with our reply envelopes bearing our return address.

(6) We count statements and letters after checking with ledger balances and recount number of envelopes ready for mailing, and one of our employees deposits same in the mail box.

(7) We list replies showing differences and investigate, asking for a report from manager.

We know that city dealers' weekly accounts are due in the first week of December and are usually paid promptly, but negative confirmation is necessary because it is more effective than control of cash subsequent to audit date in situations where these cash receipts cannot be definitely related to particular invoices or statements being paid.

A collector may pocket collections made during the last week of November and customers' balances at November 30th would indicate certain unpaid items billed during third and fourth week of November. If the collector is aware of the fact that auditor does not confirm accounts receivable, his embezzlement would not be detected, as he may be astute enough to report a full payment of arrears during the first week of December to prevent any discussion of delinquent accounts.

If no confirmation procedure is carried out, the collector then proceeds in December to hold back collections.

A few complaints from customers, based on negative confirmation, will bring this defalcation to the surface.

Work to Be Done After Close of Fiscal Year

(1) The wholesaler hands us schedules, suitably aged, showing balances of all accounts in subsidiary ledger. The aging schedules are drawn up to show accounts paid during the first three weeks of January, so that any accounts unpaid at date of audit can be examined. These items would comprise monthly accounts and any overdue items. Total shown in "payment" column is reconciled with cash receipts book.

(2) We foot these schedules and agree total with general ledger control accounts.

(3) The balances shown on schedules are checked with ledger balances and after discussion with manager, we compute the necessary reserve for doubtful accounts and unearned gross profit.

(4) Examine summaries of accounts receivable ledger balances prepared throughout the year and ascertain whether they are in agreement with control accounts throughout the year. In this connection, the client's staff should prepare a copy of general ledger control accounts for period under review.

Inventories

Inventories of a wholesale distributor consist of the following:

1. Saleable newspapers and magazines on hand (loose copies).

2. Newspapers and magazines to be returned to publishers:—

(a) Complete copies not yet stripped,

(b) Headings and covers of magazines ready for shipment to publishers.

3. Saleable books on hand.

(All the above items are located on the premises.)

4. Newspapers and magazines (in bundles) not yet opened are also on the premises. This represents complete shipments billed by the publisher but which will be distributed to dealers after the closing fiscal period. In some cases, if not billed, an accrual must be set up for the liability.

5. Newspapers and magazines in transit, i.e., billed by the publisher but not yet received on inventory date.

All inventories are priced at cost and as returns are sent to publishers promptly for credit, there are not "obsolete" items. Physical inventory is taken on Saturday noon on the last day of fiscal year for items (1) (2) and (3) listed above. Our representative attends the client's place of business during the taking of the inventory, which is counted and called by one clerk and entered on inventory sheets which have been prepared in advance. The sheets group publications handled for each publisher, and if no relative copies are on hand, space is left blank. We count the *saleable books* on hand with client's staff, because they usually represent at least 80% of the "on hand" inventories, and we compare this count with perpetual inventory records maintained for books. The same day a member of the office staff inserts cost price and extends and totals inventories listed. We check this work for arithmetical accuracy and also compare prices

with relative items shown in "price book". We note total on our working papers up to this point.

Newspapers and magazines (in bundles) represent at least 30% of the total inventories. It is not necessary to open these as the quantities appear on labels used by the publisher and fastened to the parcel. Our representative makes a test check of a few publishers' shipments by counting the bundles and tracing the entries to inventory sheets.

An additional verification is made of these totals by comparing them with the publishers' statements which show the quantity and amount of charge, and also it is possible to compare them with the receiving book which shows date received, and it can be noted that insertion for distribution date is still open.

Nothing further can be done to complete inventory sheets until all publishers' bills are received. Then the chief accountant lists inventories in transit, by reference to receiving book and publishers' bills.

By January 20th, the date of commencement of audit, inventory sheets, completed, are handed to us and we then make a further verification of in-transit items and check all prices, extensions and footings, and summarize the inventories as indicated above. Often re-orders delivered to customers during the three days preceding the close of period are so numerous that the charge to customer appears on the following week's statement, and no delay occurs in completing current statement. This "receivable" is added to inventories.

Opposite each item of in-transit or bulk copies not distributed, the date of distribution is subsequently noted by the client so that if the publisher does not ship an in-transit item, it can be followed up.

This procedure is of particular importance throughout the year because often, although a charge is made by publisher, he does not print, and may neglect to ship.

No reserves are required or necessary in this particular business. All publications are fully returnable to the publisher at cost, with the exception of a certain percentage of non-returnable papers, which loss is calculated and journalized, and eliminated from inventories as already explained.

We verify the fact that liabilities have been recorded for all items included in inventory.

Our client does not handle any novelty merchandise, commonly sold by magazine outlets, such as razor blades, pencils, postcards, etc. It was found by experience that time and effort required to distribute these items (on a non-returnable basis) did not bring sufficient profits and jeopardized the smooth operation of the book, magazine and newspaper departments.

We obtain the standard form of inventory certificate from the management.

Deposits

We confirm deposits by direct communication with publishers and others, and also ascertain that interest payable on deposits has been received during the year.

Fixed Assets and Delivery Equipment

The automobiles owned by the wholesaler are verified by examining the license cards for the year and cross-checking with fleet insurance.

We vouch all purchases of trucks and autos during the year with appropriate invoices. All delivery equipment is purchased for cash. We also verify depreciation provided for the year and see that maximum rates, as permitted by tax authorities are taken. Profit or loss on trade-in is reflected in profit and loss account separately.

We reconcile these figures periodically to see that they are in agreement with Income Tax Department Schedules which are furnished by tax authorities whenever tax assessments have been received from Government.

If company figures do not agree, we see that books are adjusted to conform with Tax Department balances and appropriate adjustments are made in the books.

Furniture, Fixtures, Office and Warehouse Equipment

Although the wholesaler's investment in fixed assets is relatively insignificant in amount in relation to total assets, detailed asset records are maintained to show cost and related reserves for depreciation.

We trace purchases of new equipment to purchase invoices, and the client furnishes us with a schedule similar to the type prepared for the delivery equipment accounts. As we have audited the books since commencement of operations, details are contained in our working papers of all prior year transactions, so that our review of accounts under this caption is confined to current year only.

For convenience, desks and chairs are grouped in one account, but items which cost over $200 are shown separately in subsidiary ledger.

The company does not write off an item that has become fully depreciated, if it is still in use, but carries it at $1.00 net. If, however, item is retired, by sale or by being scrapped, manager's approval is obtained for write off, and profit or loss on retirement is calculated and shown as a separate item in profit and loss account.

If alterations are made to leased premises, a separate account is maintained, as this item is written off the term of the lease.

Deferred Charges

The programme relative to deferred charges does not present unusual problems.

We are furnished with insurance schedules and make certain that coverage is adequate and complete for fixed assets, delivery equipment and inventories.

However, if the client obtains new franchises and carries larger inventories than formerly, we make certain that additional coverage is obtained and make enquiries from the manager during the year, based upon our review of monthly balance sheets.

Trade Accounts Payable

(*Publishers and Sundry Creditors*)

We are furnished with trial balances of subsidiary ledgers which are checked to ledger and agree with control account.

It is not necessary to confirm payables, because statements are obtained for all accounts.

We examine all reconciliations which are attached to publishers' statements, showing difference between ledger balance and statement balance, and compare the reconciliation with the actual entries in the ledger. Any items which appear to be overlooked by the publisher covering returns, cheques and charges for services, etc. and which are over one month old are questioned, to ascertain whether letters have been written to the publisher. Correspondence is examined, as certain returns may be in dispute, and it may be necessary to write off as a loss any returns sent back too late for credit.

December statements from publishers are checked in detail to receiving records, inventories and purchase journal, to ascertain —

(1) That accrual has been provided for merchandise received and on hand, not billed by publisher.

(2) That accrual has been provided for merchandise received, not on hand, but shipped to dealers and billed to dealers prior to end of fiscal year.

(3) That inventories in transit include items billed by publishers but not received until after closing date.

We obtain letter from client on their own letterhead, regarding inclusion of all liabilities.

Provision for Federal and Provincial Corporation Taxes on Income

After we have completed our working papers and arrived at taxable profit for the year, we calculate tax provision, and our working papers give full details of reconciliation of net profit and taxable profit.

We check instalment payments by examining cancelled cheques issued during the year and compare same with instalment remittance form used by the client.

Customers' Deposits

We are furnished with a detailed schedule of deposits contained in a subsidiary ledger and agree total with general ledger account.

These deposits are not confirmed, and no interest is paid. It has been customary to demand deposits of $10 to $25 from smaller retail outlets, to secure payment of account, in event of bankruptcy, etc. The deposit usually amounts to one week's net bill.

A duplicate receipt book is used when deposit is received, and if customer ceases operations, the receipt must be returned to the manager, who cancels it and issues instructions to refund deposit by cheque only.

We note that the trend recently is to discontinue demanding deposits, so that this account is gradually being liquidated.

Capital Stock

Because the stock is closely held, there have been very few changes in stockholdings during the past years, nor has it been necessary for the company to issue additional shares, since the original shares were issued at time of incorporation.

However, we spend an hour or two examining stock ledger, share certificate book, minute book.

If any stock transfers have been made during the year, we note whether tax has been paid.

Surplus

It is the company's policy to reflect *all* prior year adjustments, through profit and loss, as the amounts involved are not large, and usually involve adjustments of depreciation reserves made by Tax Department, and additional income tax assessed by reason of adjustments of taxable income. We retain photostatic copies of all notices of assessment in our permanent file.

We vouch declaration of dividends with Minutes of Directors' meetings, and examine cheques issued to shareholders for dividends, and compare them with cash book entries.

Conclusion

After we have received all confirmations and certificates, we prepare the closing entries and hand them to chief accountant, who closes general ledger. When closing trial balance has been received from him, we carefully check it with our draft financial statements. We then proceed with the typing of our long-form reports.

As the client prepares the corporation tax returns, we furnish him with a sufficient number of copies for this purpose. The client sends us a copy of all returns filed for future reference.

We compare current year's statements with previous year's figures, ascertain reasons for increase in any expense or decrease in income accounts.

We discuss the results of the audit work with the client, and if necessary, a separate letter is sent to the client with any suggestions which we deem necessary covering accounting system, system of internal control, etc.

Accounting and Auditing Research in Canada

By C. L. King, B.Com., C.A.
(Secretary, The Dominion Association of Chartered Accountants)

A statement of the functions of the D.A.C.A. Committee on Accounting and Auditing Research

ORGANIZED study by The Dominion Association of Chartered Accountants in the field of accounting and auditing is a development of fairly recent origin. The first step taken in this direction was the formation in 1934 of the Committee on Terminology. During the succeeding four years this committee prepared the first dictionary of accounting terms for use in Canadian practice. The results of this study were published in 1938. In the foreword of the publication the committee stated that the main objective sought by its work was the development of a greater degree of uniformity in the terminology used in Canadian practice. It was proposed that, as meanings and concepts changed, revisions would be made to maintain the dictionary as an up-to-date and useful tool. As a result of such changes it was decided recently that the dictionary should be revised and, the Committee on Terminology having been disbanded, the task of revision was given to the Committee on Accounting and Auditing Research.

Formation of the Committee

The Committee on Accounting and Auditing Research was formed in 1939 to negotiate arrangements with Queen's University in Ontario for the support of certain studies on accounting topics, which were to be carried out at the University. The thought was that the academic institution could provide assistance to the profession in the solution of problems facing its members in their day to day practice. However, with the onset of World War II in the fall of 1939, it was thought inadvisable to initiate any such study at that time. As a result the Research Committee, while it remained in existence, was relatively inactive until the fall of 1946. At that time the membership of the committee was expanded and, with the appointment of a Research Director to the staff of the Association, the study of problems facing the profession in Canada was undertaken.

The first questions to be solved by the committee were the determination of the general policy under which it would operate, the methods of procedure and the projects to be studied at the onset. In this connection the committee drew extensively on the wealth of experience of the committees of the American Institute of Accountants and the members of the staff, and no report of our activities would be complete without an ex-

A paper read at the Pan-American Conference of Accounting, Puerto Rico, May 1949

pression of gratitude for the assistance and advice so willingly given.

Its Functions

The Research Committee considers that its sphere of potential service may be classified under three broad headings, all of which are overlapping and interdependent: firstly, the delineation of presently accepted concepts of accounting principles and auditing procedures in an effort to determine which are sound and useful, in order to bring about not only a greater degree of uniformity of practice but also an improvement in the general level of accepted standards; secondly, the analysis and review of presently accepted concepts in the light of changing business and economic conditions in order to determine their continuing validity and usefulness; thirdly, co-operation with other bodies of accountants or persons interested in accounting and financial reporting in Canada and other countries for the purpose of co-ordinating the work of the committee with that being done elsewhere. This co-ordination would secure the benefit of the thinking and experience of others and assure that the work of the committee is fundamentally in accordance with developments elsewhere.

In respect of the first area of study the committee believes that if it is to render a useful service to the profession in Canada, its suggestions must be acceptable to and followed by practitioners in all sections of the country and in large, medium and small-sized firms. It is our opinion that the type or size of practice should not affect the standards to be observed or the principles to be followed. In line with this thinking the bulletins of the committee are drafted with reference to its determination of the "best of accepted practice". From the point of view of the public, the concepts of the profession are only as good as the acceptance these concepts receive by the profession. It is believed that if the changing concepts, as applied by the best of accepted practice, are brought to the attention of the profession such action will assist in the improvement of standards of practice and financial reporting and in the development of higher and more uniform standards.

Bulletins Issued

In this field of activity the Research Committee has, to the date of this writing, issued three bulletins. The first, "A Statement of Standards of Disclosure in Annual Financial Statements of Manufacturing and Mercantile Companies", sets out the minimum disclosures necessary in such statements if they are to be said to fairly present the affairs of the organization concerned and in addition, further disclosures which are regarded as being highly desirable in the interests of improved financial reporting.

Bulletin No. 2, "A Statement of the Minimum Standards of Professional Practice Which Should Apply in Respect of Prospectuses", emphasizes the requirement that the auditor must be careful to ensure that the statement of earnings upon which he is reporting in any prospectus presents a fair and reasonable picture of the earnings of the preceding year or years. He is also charged with the responsibility of ensuring that nothing in the circular relating to information about which he has knowledge is of such a nature as to be misleading to the reader and potential investor. Bulletin No. 3, "The Accounting Treatment of Income Taxes in Some Special Circumstances", deals particularly with the accounting treatment and methods of presentation of special adjustments in taxes on income arising as a result of the operations of the loss carry-over provisions in the *Income Tax Act* or for other special reasons, such as renegotiation proceedings.

Among the topics currently under

study are accounting for bad debt losses, auditing standards, accounting for and valuation of inventories, and surplus and reserve accounts.

It is almost impossible to pursue the study of any of these problems without being confronted with the fact that the concepts upon which present practices are based are neither clearly defined nor generally agreed upon. Even under the presently accepted concept that the accounting recognition of transactions shall be based upon cost, the divergence of opinion as to what constitutes the "income for the year" is most astonishing. If this concept is to be retained much remains to be done to bring about general acceptance of the principles which are derived therefrom. Certainly the study projects (a), (c) and (d) above cannot be finally determined until there is general agreement as to what is to be included in the figure for the "income for the year". Pending the solution to this larger matter, it does appear that a useful purpose can be served by bringing about a greater degree of uniformity of practice so that the arguments as to validity of concept do not become inextricably confused with those as to the variations of application.

In this connection there appear to be two points that might be resolved in the near future. The first is the determination of what items are to be and what are not to be included in the figure for the income for the year and consequently which are to be carried directly to surplus. In this respect it appears that the disclosure of extraordinary and unusual items in itself is not sufficient. The accounting profession must determine whether or not such items are to be regarded as income for the year under review and, if so, there must be agreement as to their inclusion in the income statement and, if not, there must be agreement as to their exclusion. The other point is whether or not the accounting recognition of transactions is to be based upon the concept of the completed transaction or upon a supposition of unlimited existence of the enterprise. If this aspect could be settled it would probably narrow the field of argument in respect of a number of the other items requiring solution.

The Concept of Income

The major problem facing the committee in Canada, and the profession in other countries, is the determination of the concept of income. While the businessman or the economist may argue that the present concept of income does not take into account the changing value of the monetary unit, it is also well to remember that there may well be more than one sound and useful concept of income, depending upon the purpose for which the determination is being made.

The profession in Canada is following with intense interest the study on business income by the American Institute of Accountants.

Collaboration with Other Bodies

In the co-ordination of the activities of the profession in various countries, some steps have already been taken in this regard. The professional organizations in the United States of America, Great Britain and Canada keep in touch with the developments in the other countries through the exchange of publications. The problem of our co-operation with other countries presents a somewhat more difficult task since the language barrier must be overcome. In Canada we have some experience in this respect, having two official languages, French and English. Our experience would indicate, however, that differences in language should interpose no insuperable difficulties in the way of co-operation with other bodies of accountants.

Uniform Terminology

By J. R. M. Wilson, F.C.A.

A discussion of the problem presented to the Pan-American Conference of Accounting in Puerto Rico, May 1949

A UNIFORM terminology is essential to any profession. Voltaire once said, "If you would converse with me, define your terms", and each one of us is only too familiar with the time that is wasted in needless discussion because of a misunderstanding as to the meaning of some basic term. Until a uniform terminology is agreed on, a profession cannot grow; for progress comes from one man's idea, the studying and testing of this idea by the group, and if it is a good one, the acceptance of the idea by the profession. Unless the accountant with an idea can explain it in words which mean the same to all, there will be no progress.

The problems of terminology are necessarily somewhat localized, for all accountants do not speak the same language. There are even different meanings attributed to some words and phrases in different countries of the English-speaking world. Thus it is to be expected that some of the words and phrases which cause English-speaking accountants most trouble will not have similar complications when the ideas are expressed in, say, Spanish.

Public accounting is a young profession and many of its problems are due to its youth and rapid growth. Fifty or one hundred years from now accounting terms will have acquired more sharply defined meanings; today some of them leave ample opportunity for differences of opinion and misunderstanding. I suggest that the most important problem facing English-speaking accountants today is to bring into sharp focus those words and phrases which have different meanings to different people.

A Problem Peculiar to the Accounting Profession

But the accounting profession will always be faced with one problem with which other professions do not have to contend. The pharmacist can demand that his prescription be written in Latin so that there is no question what the physician intends to prescribe. This is possible because a prescription is a document passing between two professional people. Arborologists and botanists likewise can make use of Latin and in that way obtain an international language and one which sharply defines the meaning of the words, so that a word relates to only one possible object or group of objects. Other professions, while keep-

ing to their native tongue, can make their meanings clear by the use of a technical phraseology which, though meaning nothing to the layman, will be crystal-clear to all members of the profession. But public accounting by its very nature can never hope to have an international vocabulary nor can its vocabulary be too technical. The public accountant, if he is to fulfill his proper function, must translate to the reading public the most complicated financial transactions in the simplest possible terms. This, surely, is the genius of accounting. When the accountant has to resort to the use of a technical term, which will not be clearly understood by the lay reader, even though its meaning is clearly understood by him and other accountants, he has failed in his primary function which is that of an interpreter. If, then, he must draw his words from the everyday vocabulary of his readers, how is he going to achieve the criterion of "one word, one meaning"? This is our problem. We cannot make up new words to convey our thoughts, We have to use everyday words, but use words which do not permit of misunderstanding. It seems at times like an impossible problem, but I suggest there is a solution.

First of all, when we introduce words to describe new situations we must select these words with the greatest care; secondly, we should prepare dictionaries of accounting terms which explain clearly the meaning of accounting terms and make these available to all who have occasion to read and study financial statements; and finally, we should weed out of our terminology words and phrases which have been found to be ambiguous.

Canadian Approach

The selection of the most suitable words and phrases must necessarily be a problem for the individual practitioner who, faced with a new situation or condition, must choose the words most suitable to describe it. There is a certain "survival of the fittest" among new words and phrases, and the process can be hastened by bringing new phrases to the attention of other accountants. So far we have done little in Canada to help this process and we have left this field for further cultivation with an easier conscience, knowing that the work of the American Institute of Accountants, through its publication of "Accounting Survey of 525 Corporate Reports" in 1948 and "Accounting Trends in Corporate Reports" in 1949, will be widely read in Canada.

The Dominion Association of Chartered Accountants faced up to its responsibility in providing a dictionary of accounting terms in 1937. This dictionary is out of print today and the continuing demand for it indicates the very real need which it fills. Inevitably, as with any accounting dictionary published in 1937, many of the definitions are now out-dated and we are in the process of revising the dictionary completely. The very substantial research work necessary to prepare a dictionary is being handled by the director of research and his assistants. After they have completed the first draft, it is reviewed by the Accounting and Auditing Research Committee of The Dominion Association of Chartered Accountants. After this it is revised to reflect their recommendations and then it will be submitted for their comments to committees in the various provincial Institutes throughout Canada and also to the directors of research of the American Institute of Accountants and various English accounting bodies. After receiving their comments the drafts will be reviewed once more by the Accounting and Auditing Research Committee and it is

hoped that the final product will be published in the next year. In preparing this dictionary we have followed the practice of restricting definitions to accounting terms only and excluding various commercial terms which sometimes appear in accounting dictionaries but which are not strictly accounting terms; we have set out all the meanings of the terms which are in general use; we have indicated those usages which we think are to be preferred; and we have condemned those which we think are or might be ambiguous. Through such condemnation we hope to eliminate words and phrases which do not readily convey to the reader the meanings intended.

International and Inter-language Problems

The Canadian accounting profession is acutely aware of the international nature of the problems of terminology. Canadian accountants must cope with the problem of being members of a profession in a country which is closely tied by trade and sentiment both to the United Kingdom and the United States. Capital has flowed into Canada from both these countries and Canadian accountants must report to parent companies and to individual shareholders in these countries who are not aware of any localized interpretations which may have been given to accounting phrases. Thus for us it is not enough to tidy up our own terminology although that in itself looks like a Herculean task. We must also know wherein, if at all, our terminology differs with that used throughout the English-speaking world and particularly where differences have arisen between terminology in Canada, United States and the United Kingdom.

We in Canada have also the problem of two languages, French and English. While the greater part of the business of the country is carried on in English, French is the language of the Province of Quebec and in certain areas of other Provinces. Fortunately we have among our membership several prominent French-speaking accountants who are leaders among their fellow French-speaking Canadians but who speak English fluently and are thoroughly conversant with the terminology employed by English-speaking accountants. On them has fallen the burden of translating into French the findings of the Accounting and Auditing Research Committee of the Dominion Association and they are able to translate ideas into ideas rather than words into words. Literal translations from English to French or French to English would only produce confusion, and the French-speaking members of our Committee recognize the importance of avoiding literal translations which will confuse the reader.

A Suggested Solution

From our experience in Canada we assume that it is inevitable that each language group will develop its own terminology. Nevertheless, we feel it is essential that accountants in the different language groups should understand the meaning accorded to terms by those in other language groups. Our experience with two languages in Canada suggests that this is most readily handled by bilingual accountants who can bridge the gap between the two. This is no easy solution for, unfortunately, there are few professional people who are completely bilingual. Nevertheless, if our experience in Canada is any guide, I feel that a great step towards an international uniform terminology would be to bring together a group of Spanish-speaking and English-speaking accountants, each of whom was bilingual and each of whom had a clear

understanding of the meaning of accounting terms as used in both languages, and entrust to them the task of preparing a Spanish-English and English-Spanish dictionary of accounting terms with authoritative translations and warnings as to different shades of meanings. In this way the accounting profession can fulfill its primary function of simplification and at the same time take care of the problems created through international finance.

Professional Notes

ALBERTA

Howard, Munn & Richards, Chartered Accountants, announce the opening of an office for the practice of their profession at 10327 Jasper Ave., Edmonton, Alta., with Mr. Walter J. Baziuk, C.A. as resident manager.

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Wm. F. Reid & Co., Chartered Accountants, announce that they have disposed of their Brooks practice to their former resident partner who will practise in the same location under the name of Donald C. McBride, C.A., Wirz Block, Brooks, Alta.

BRITISH COLUMBIA

Howard, Munn & Richards, Chartered Accountants, announce that they have assumed the practice formerly conducted under the firm name of Howard & Dixon, Chartered Accountants, at 430 Rogers Bldg., Vancouver, B.C.

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Campbell, Shankland & Imrie, Chartered Accountants, announce the establishment of an office at 815 Victoria St., Trail. They will conduct the former practice of Mr. Roger M. Hoyland, C.A.

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C. W. Nicholl & Co., Chartered Accountants, announce the removal of their offices to 536 Yates St., Victoria, B.C.

NOVA SCOTIA

H. R. Doane & Co., Chartered Accountants, Halifax, announce that as of December 1, 1949, they have assumed the practice of Morrell & Co., Chartered Accountants, which had offices in Charlottetown, P.E.I., and Moncton, N.B.

ONTARIO

Allen, Miles & Fox, Chartered Accountants, announce the admission to partnership of Mr. Leonard E. Johnston, C.A. Henceforth the practice will be conducted under the firm name of Allen, Miles, Fox & Johnston, Chartered Accountants, with offices at 159 Bay St., Toronto, Ont.

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Hamilton and District Association of Chartered Accountants announce the formation of a students' association for the district with an interim executive committee under the chairmanship of Mr. Philip F. Connell.

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Mr. Murray M. Robertson, C.A. announces the opening of an office at 302 Richmond Bldg., London, Ont.

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Mr. David Herbert Sheppard, C.A. has been appointed Director General of Income Tax, Toronto District.

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Ottawa Chartered Accountants' Club

A luncheon meeting of the Ottawa Chartered Accountants' Club was held on November 3 at which Mr. Guy W. Smith, president of the Ontario Institute, was guest speaker. His subject was "Regulation of the Profession". He was introduced by Mr. Clayton F. Elderkin, C.A. and thanked by the president of the club, Mr. J. K. Davey, C.A., who presided. About 125 chartered accountants and students attended this luncheon.

QUEBEC

L'Heureux, L'Heureux & Co., Chartered Accountants, announce the removal of their offices to 30 de l'Epee Ave., Outremont, Que.

Accounting for Bad Debt Losses

Bulletin No. 4 of the Committee on Accounting and Auditing Research of the Dominion Association of Chartered Accountants

BECAUSE there are always some customers who cannot pay their debts, selling on credit necessarily involves credit losses. Such losses, as distinguished from amounts which are uncollectible because of damage to goods or failure to meet a specified quality or standard of performance, are "bad debt losses".

In accounting for bad debt losses, there are certain generally accepted practices which should be followed, namely:

(1) An account or bill receivable should be written off as soon as it is known to be uncollectible or should be written down to its estimated realizable value as soon as it is known that it is not collectible in full.

(2) Amounts subsequently recovered from accounts previously considered uncollectible and written off should be credited to profit and loss in the year of recovery: or, if the account was charged against a reserve for bad debts[1] when it was written off, the recovery may be credited to this reserve.

(3) If, after writing off all known uncollectible accounts, it is expected that some further losses will be incurred in collecting the accounts and bills receivable outstanding, including bills receivable under discount, a reserve for bad debts (or a reserve for doubtful debts) should be provided. This reserve should be determined in accordance with generally accepted practices whether or not this specific amount will be allowed for taxation purposes.

(4) Irrespective of how the reserve is determined, under ordinary circumstances it should be the best possible estimate of the probable loss on accounts then outstanding, in the light of current conditions and assuming the continuation of the business as a "going concern".

Losses Applicable to a Particular Year

Over the entire life of an enterprise the amount of bad debt losses is readily determined and this amount should be deducted from revenue in ascertaining the aggregate profit or loss of the enterprise. It is a more difficult problem, however, to determine the bad debt losses applicable to any one year and various methods of calculating the reserve for bad debts, and consequently the amount of the expense, have been followed. The Committee is of the opinion that the amount of the reserve for bad debts at the end of a fiscal period, and therefore the charge to the

[1]In using the phrases "reserve for bad debts" and "reserve for doubtful debts", which are considered to be synonymous, the Committee follows generally accepted practice. It recognizes, however, that the designation of accounts of this nature as "reserves" has tended towards confusion in the understanding of financial statements and it is thought by some that "allowances" might be a more appropriate term. The Committee is continuing its study of the use of this phrase and is following with interest the attempts of the American and English Institutes to restrict the use of word "reserve".

This Bulletin of the Accounting and Auditing Research Committee is being mailed under separate cover to all members of the Association. The Committee, as usual, will welcome comments on the Bulletin and take them into account when giving the subject further consideration.

profit and loss account for the period, should be calculated with reference to the accounts outstanding at the end of the fiscal period after taking into consideration all circumstances known at the date of review.

Determination of Reserve Required

The estimated reserve required is a matter of opinion and the actual loss eventually sustained may be more or less than the estimate. The variation will depend not only on the pessimism or optimism of the estimator but also on events which have yet to occur and which cannot be foretold, such as future collection policies of the enterprise and future business conditions. The impossibility of making an exact forecast does not, however, relieve the management of the responsibility of making a careful estimate of the reserve required.

No formula can be set out which, by itself, provides a means by which the amount of a reserve can be determined. The nature of the particular business, the class of customers, the frequency and value of individual sales, the collection policy, the efficiency of the collection department and general business conditions at the time are all factors which must be taken into account.

There are, however, certain general practices which should be followed and these are set out below:

(a) In ordinary circumstances, an enterprise is to be considered as a "going concern" and no allowance need be made for the additional costs of collection which would be incurred if the enterprise were liquidated.

(b) In the case of accounts which are no longer active, the expected loss on ultimate realization, including legal and other direct collection costs (if any) which may have to be incurred, should be estimated for each account.

(c) All businesses, however, do not stop selling to a debtor as soon as there is a possibility, or even a probability, of loss. In some cases, to do so would force the customer into immediate bankruptcy with the resulting loss of the balance presently outstanding; whereas a continuation of credit on a restricted basis over a period of a year or more may give the customer an opportunity to restore his financial solvency or, if not, to reduce the balance owing on the account and so reduce the loss. For this or other reasons, many businesses continue to sell accounts on which there is a known probability of loss, and in such cases, the reserve for bad debts should include some provision against the probable ultimate loss on such accounts even though the actual balance outstanding at the end of the year may be paid in the following year.

While it is presumed in the above remarks that an individual appraisal will be made of each account, this is not always practical. In some cases, a similar result may be obtained by aging the balance outstanding (e.g., current, 30-60 days, 61-90 days, over 90 days) and by applying to the totals so determined varying percentages based on past experience, or an individual appraisal of larger balances may be com-

bined with an aging of smaller balances. In some instances the annual provision for bad debts may be arrived at by applying a fixed percentage, calculated in light of the bad debts' experience of prior years, to the sales for the year. Where this or any other alternative method is followed, the resulting reserve should be reviewed from time to time to see that it is not materially more or less than the amount which would be required on the basis of providing for the probable loss on the accounts outstanding at the balance sheet date.

The Committee also recognizes that under the unusual conditions brought about by the war an abnormal credit situation developed. As a result many enterprises carried forward reserves for bad debts in excess of the probable loss should realization of the accounts be achieved under these abnormal conditions. In such cases, the existing reserves were carried forward on the assumption that they would be needed as soon as conditions changed. It follows that whenever such abnormal conditions end, the justification for exceptions from general practice ceases.

A Letter From a Reader

Winnipeg, Manitoba

Sir: Whilst struggling with the subtly soporific effects of a wet luncheon and a dry subject, an observation occurred to me which may be of interest or may provoke thinking.

The speaker — a tax official — was saying as little as possible in the choicest language, when he touched on the subject of 'consistent practice' in the valuation of inventories. Another speaker, later, made reference to the "consistency rule". It occurred to me that consistency is one of our gods. We berate our clients about it at every opportunity and find it written into the law and the practices of government which affect our daily existence.

To quote from Bartlett, it has been the popular tendency from the earliest times to refer to this or that cardinal virtue as "a jewel", by way of emphasis. A very old popular saying has been — "Consistency, thou art a jewel".

One wonders, however, how often this reference, quoted with all the authority of law, becomes the tool of the unprogressive and impedes proper forward-thinking. In this connection another quotation has always appealed to me — this time from Ralph Waldo Emerson, who wrote:

> "A foolish consistency is the hobgoblin of little minds, adored by little statesmen and philosophers and divines."

S. B. Laing, C.A.

Examination Results, 1949

ALBERTA

Final

Passed: Adams, W. K.; Alger, R. P.; Austin, A. G.; Bentley, D. DeW.; Braden, A. H.; Ferguson, J. B.; Fowler, J. C.; Hay, C. W.; Hunter, L. A.; Jacquest, D. M.; Legault, C. E.; McFarlane, J. K.; Morrison, I. L.; Newinger, H. K.; Pollard, S. L.; Porter, D. L. G.; Rae, J. McQ.; Ross, J. R. D.;

Granted supplementals: Brown, T. G.; Davis, W. A.; Fallis, A. T.; Gerla, L. G.; Greig, J. H.; Grier, D. J.; Jarman, G. H.; Mackintosh, I. A.; McGie, N. B.; McKenzie, M. F.; McKinnon, R. B.; McKinnon, W. R.; Meston, A. F.; Miller, A. K.; Mitchell, W. R.; Schell, W. E.; Sommerville, G. Y.; Ward, R. B.; Woodman, G. E.

Prizewinner: Institute prize of $25 — I. L. Morrison.

Intermediate

Passed: Baker, J. E.; Buchanan, D. G.; Buchanan, R. F.; Cardiff, K. C.; Cotton, R. G.; Devine, J. W.; Fraser, H. M. L.; Gibson, H. G.; Gottfred, L. A.; Gray, D. C.; Jeffers, R. L.; Mainwood, E.; Nichols, L. M.; Morton, R.; Ogilvie, D. P.; Robinson, D. S.; Rois, A. N.; Simpson, W. B.; Walls, C. E.; Williams, H. A.; Wolstoncroft, M. C. J.

Prizewinner: Institute prize of $15—J. E. Baker.

Primary

Passed: Allison, K. T.; Baines, R. A.; Barret, H. R. J.; Bateman, J. R.; Brooks, E.; Burgoyne, N.; Carroll, C. W.; Collins, J. E.; Donaldson, R. H.: Gilmour, A. H.; Harris, R. G.; Hogan, J. A.; McKay, M. S.; Macintosh, W. J.; Marsh, J. K.; Nicholson, H. F.; Niles, W. I. C.; O'Reilly, A. M.; Packman, B. M.; Ringrose, E.; Rufenach, H. O.; Wilson, R. H.

Prizewinner: Institute prize of $10— R. G. Harris.

BRITISH COLUMBIA

Final

Passed: Alexander, W. D.; Beddome, Miss J. H.; Browne, A. D.; Courtice, L. D.; Darling, F. R.; Ewing, J. B.; Forster, C. K. B.; Gandossi, M.; Graham, F.; Graves, B. D.; Gray, W. G.; Hacking, Miss C. M.; Holmes, G. E.; Johnson, J. A.; Lane, J. H. C.; Manson, J. D.; Manzer, C. G.; Mare, P. D.; Morton, B. C.; O'Brien, D. L; O'Connell, E. J.; Rathie, A. H., Jr.; Ross, D. H. M.; Ryan, J. C.; Stoess, C. T.; Sutherland, J. A.; Taylor, R. J.; Warner, H. L.

Supplementals granted: Bone, D. A. G.; Field, H. F.; Hancock, J. K.; Hope, J. J.; Hunter, Alex.; Madeley, S. T.; Ridgway, L. G.; Shand, R. A.; Smith, F. D.; Underhill, P.; Worsley, R. L.

Prizewinner: B. C. Institute gold medal for highest standing in B.C. in final examinations—John B. Ewing.

Intermediate

Passed: Adam, W. E.; Armstrong, D. A.; Ashley, L. S.; Baker, H. D.; Bailey, R.; Bellinger, A. G.; Bestwick, L.; Bond, J. N.; Brassington, W. J.; Brien, F. R.; Burt, W. L.; Carter, K. B.; Cowan, P. R.; Crawford, P. W.; Dyke, C. D. L.; Ellis, R. C.; Ellis, R. L.; Fahrni, G. O.; Fletcher, D. P.; Flury, L. V.; Goold, G. W.; Goulson, A. A.; Gourley, R. A.; Graham, R. B.; Green, J. W. A.; Hall, A. B.; Hill, A. L.; Hill, C. J.; Hofstrand, C. W.; Hollingshead, W. R.; Horne, D. C. R.; Howard, E. I.; Humphrys, C. M.; Jenkins, S. B.; Jermain, R. L. V.; Johnson, C. A.; Keenlyside, R. W.; Laurie, W. B.;

Lavery, T. M.; Leslie, I. T.; Leversage, G. D.; Lightbody, K. M.; Loiselle, H. A.; Manuel, L. W.; Martin, L. J.; Mason, F. B.; Mill, R. M.; Miller, G. D.; Milner, R. S.; McCubbin, W. D.; MacKay, A. C.; McLean, G. F.; Nelson, W. B.; Price, R. H.; Richards, G. C.; Rose, R. J.; Rose, T. F.; Russell, N. G.; Thibaudeau, M. M.; Thomas, J. D.; Walton, A. E.; Waring, A. A.; Wolf, H. H.; Woolcock, J.

Prizewinners: Dominion Association silver medal for highest standing in Canada in intermediate examinations — John Woolcock.

B. C. Institute silver medal for highest standing in B.C. in intermediate Examinations: John Woolcock.

Primary

Passed: Allan, M. A.; Alves, D. R.; Anderson, D. McL.; Beaton, B. W.; Benson, K. P.; Biddle, G. H.; Blake, I. S.; Bramley, J. H.; Carter, J. H.; Castelan, R.; Chambers, L. E.; Creech, R. C.; Daniels, P. L.; Dunn, H. R.; Estock, J. J.; Fahy, B.; Foster, W. M.; Harper, G. K.; Harwood, G. L.; Hunt, A. D.; Hunting, P. R.; Jones, A. H.; Kerr, D. R. A.; Milroy, J. A.; Mullin, D.; Murray, A. M.; McConnell, O. R.; McConville, C. G.; McKay, R. J.; Newman, R. G.; Philley, H. P.; Porter, D. K.; Quelch, J. T.; Pretty, J. A.; Richards, H. J.; Scott, J. C. M.; Slater, S. K.; Sykes, J. R. W.; Underhill, R. E.; Wallace, W. P.; Whittall, H. V.

Supplemental in English: Davis, M. E.; Roberts, D. T. C.

MANITOBA

Final

Passed: Bergman, H. E. J.; Black, W. G.; Burns, A.; Corner, W. R.; Dupré, D.; Fanthorpe, N. V.; Karn, Miss D.; Lewis, G. K.; Lonergan, J. B.; McClarty, E. M.; Merrett, H. O.; Minuck, J.; Page, N. C.; Parker, L. W.; Quick, J. H.; Riley, J. D.; Rutledge, J. E.; Sayles, M. A.; Swanlund, R. B.; Sweiden, P.; Warms, W.

Granted supplementals: Anderson, G. A.; Armstrong, W. F.; Cobb, R.; Croll, J. R.; Elhatton, L. G.; Gruber, L.; Hyde, M, C.; Kennedy, W. C.; McAllister, J. A.; McFarlane, J. G.; Maruca, A.; Mitchell, J. F.; Monk, P.; Morton, J.; Ramsay, A. D.; Rankin, M.; Richmond, A. J. S.; Shannon, Paul D.; Wachal, J. C.; Wolstenholme, Miss B. H.; Woodcock, L.; Wooster, G. A.; Wyman, Miss M. F.

Prizewinners: $100.00 as the highest ranking Manitoba candidate, and the John Parton Prize of $50.00 for ranking highest among the Manitoba ex-servicemen in the final examination—N. C. Page.

Prize of books for ranking second among all Manitoba candidates—W. G. Black.

Intermediate

Passed: Agnew, W. H.; Ashley, G. S.; Barber, W. R.; Bellamy, J. M.; Booth, H.; Broadfoot, J. V.; Burke, B. T.; Chambers, J. A.; Douglas, G. E.; Fryers, G. C.; Gamble, G. J.; Gemmel, J. L.; Gork, E. G.; Grierson, A. I.; Hall, F. G.; Hays, W. W.; Horne, G. A.; Havard, G. E.; Hornstein, G.; Hunter, G.; Jenkins, G. A.; Kerr, Garth C.; Korn, D.; Lewis, W. M.; Lynch, G. J.; Lyons, P. H.; McMeekin, R. E.; McWhirter, R. J.; Mackie, A. D.; Maher, A. W.; Morrison, W. J. M.; Mace, J. A.; Posen, A.; Reid, D. A.; Sawyers, R. J.; Seifred, E. J.; Sheridan, D. J.; Skene, E. A.; Streuber, E. B.; Sutton, J. V.; Taylor, W. D.; Treble, L. C.; Trueman, G. V.; Truscott, P. H.; Vadeboncoeur, R. N.; Verdin, E. L.

Prizewinner: W. A. Henderson silver medal and a scholarship of the value of $50.00 as the highest ranking Manitoba Intermediate candidate—D. Korn.

NEWFOUNDLAND

Final

Passed: Hunter, E. M.

Intermediate

Passed: Conway, J. W.

NEW BRUNSWICK

Final

Passed: Blanchet, P. M.; McNichol, W.; Page, J. A. G.

Granted supplementals: Duff, F. L.; Gosling, A. F.; Logan, J. K.; Thompson, E. W.

Intermediate

Passed: Allwood, W. M.; Bayer, F. J.; Blackie, W. W.; Fowler, E. R.; McKenzie, G. K.; Smith, F. T.; Taylor, F. M. G.; Warner, C. G.

Primary

Passed: Bain, J. D.; Cormier, D.; Ferguson, J. D.; Johnson, V. L.; Quartermain, W.; Schell, C.

NOVA SCOTIA

Final

Passed: Cameron, D. R.; Draper, W. B.; Hanright, W. J. F.; Thompson, W. G.; Wilson, H. S.

Intermediate

Passed: Coleman, W. D.; Cunningham, J. F.; Dodge, J. S. H.; Evans, C. J.; Fraser, A. G.; Haughn, Q. A.; Kenney, S. A.; LaCusta, L. W.; Linton, A. W. W.; MacDougall, J. W.; Miller, C. K.; Menard, R. A.; Parsons, A. W. C.; Zwicker, C. E.

Primary

Passed: Amey, G.; Conrad, W. P.; Durning, G. H.; Forse, B. R.; Giles, R. C.; Hare, J. G.; Johnson, G. L.; Leary, L. A.; Matheson, C. F.; McCully, L. D.; Peterson, P. C.; Wightman, G. A.

ONTARIO

Final

Toronto

Passed: Adams, M.; Allman, K. G.; Baillie, R. L. T.; Berry, G. C.; Birstein, M.; Black, E. G.; Crammond, J. B.; Dedrick, M. E.; Feldman, M.; Fruitman, L.; Haig, D. M.; Hall, D. H.; Harris, M.; Hopps, V. E.; Horne, M. F.; Isenbaum, H.; Jackson, M. I.; Jewitt, E. T.; Lear, Miss P. M.; Lettner, J. E.; Littleford, H. W.; Mitchell, C. L.; Moore, R. O.; Morrison, D. K.; Moxon, J. N.; MacDonald, W. L.; Nash, F. T. W.; Parkes, H. B.; Pogue, R. E.; Slater, R. S.; Sprackman, C. H.; Stevens, L. F.; Stewart, D. C.; Webb, D. I.; Witham, W. A.

Granted supplementals: Axon, F. A.; Backus, J. R.; Berezin, J. T.; Boyce, C. O.; Bryant, K. J.; Cachia, E. F. N,; Cameron, J. S.; Cassels, W. D.; Cohen, R. D.; Colvin, G.; De LaFranier, R. L. W.; Edwards, K. H.; Fields, D. B.; Filman, J. C.; Fleming, P. E.; Frank, C. A.; Goldmintz, B. C.; Goodman, F. C.; Greenhill, M. P.; Greenshields, R.; Harrison, S.; Henry, N. A.; Howard, A. D.; Kearns, J. H.; Kofman, J.; Lumbers, F. P.; McIvor, W. C.; Meyers, E. B.; Murton, D. M.; Paice, Wm. H.; Patchet, G. S.; Peirol, E.; Rice, E. A.; Robertson, F. G.; Rubinoff, N.; Sharkey, J. H.; Shoom, S.; Smith, W. W. M.; Springer, B.; Spry, G. D.; Thomas, R. D.; Thompson, R. A.; Vipond, J. R.; Waisglass, A.

Outside Toronto

Passed: Bryden, W. A.; Buckingham, K. C.; Coleman, W. J.; Foulds, Miss N. M.; Grant, F. A.; Humphreys, S. H.; Krauel, P. L.; MacKenzie, R. D.; MacMillan, W. D.; McConkey, E. B.; Norwood, F. L.; Payne, S. G.; Robinson, Earl G.; Rogers, J. D.; Smith, A. W.; Starling, D. F.; Ward, J. C.; Welch, G. M.; Wilson, F. S.

Granted supplementals: Antilla, P. F.; Blyth, T. F.; Butler, L. J.; Ferris, G. H.; Guignard, E. J.; Hoare, C. S.; Hubbard, B. G.; Kirkwood, K. B.; Laird, J. H.; Lumby, J. M.; MacDonald, N. H.; Martin, D. L.; Matheson, K. B.; McBurney, D. F.; McLaren, C. S.; Myles, K. G.; Savage, G. A.; Thornhill, A. McL.; Wellington, H. C.; Wettlaufer, R. W.; Whistlecraft, D. W.

Prizewinners: Ontario Institute Gold Medal and Prize—F. L. Norwood.

Special $100 Prize to Ex-Serviceman — D. K. Morrison.
George Edwards Prize (Accounting II, III and IV)—Charles L. Mitchell.
W. T. Kernahan Prize (Auditing) — William A. Macdonald.
E. R. C. Clarkson Prize (Accounting I)— Robert L. T. Baillie.

Intermediate

Toronto

Passed: Adamson, J.; Andrew, D. R.; Armitage, R.; Ausman, E. N.; Baker, Alvin; Barnett, R. V. M.; Bernholtz, M. M.; Best, P. E.; Blodgett, G. S.; Boaretti, L.; Bossin, S. L.; Broad, R. H.; Brooks, A. R.; Brown, T. O.; Bull, Ivan E.; Campbell, J. R.; Campbell, W. D.; Canden, T. R.; Clark, E. A.; Clarke, A. J.; Clarkson, C. B.; Collis, A. A.; Currie, N. T.; Davies, V. H.; Davis, G. W.; Dunlop, D. S.; Eadie, A. W.; Ferris, C. E.; Fortinsky, A.; Gambles, C. R.; Galloway, R. J.; Garratt, G. A.; Gibson, J. K.; Gibson, I. McF.; Gillespie, T. B.; Glickman, S.; Goldlist, G. D.; Greenspan, A. E.; Grossman, E. I.; Harris, J. W.; Harrison, F. V.; Henderson, G. W.; Herington, R. E.; Hickman, J. D.; Higginbotham, D. C.; Hill, W. F.; Hoare, F. T.; Holiff, M.; Howson, J. B.; Irvine, G. E.; Jackson, A. W.; Jackson, J. D.; Jennison, A. C.; Kerby, M. J.; Klyman, M.; Kosalle, J. F.; Kurtz, B.; Landsberg, M. H.; Layzell, G. H.; Lewis, R. D.; Lynd, T. M.; Mailling, R. B.; Manners, C. M.; Marcus, A.; Marquis, R. A.; Marsh, E. A.; Maynard, L. G.; Mead, W. T.; Meddick, W. C.; Midghall, J. G.; Moloney, J. P.; Macarthur, J. R.; McClelland, D. M.; McCormack, E. J.; Macdougall, H. S.; McDougall, W. E.; McEvenue, W. C.; McKee, J. A.; McKellar, N. A.; Mackillican, J. A.; McKillop, A.; McMahon, L. G.; McPhie, D. N.; Newton, J. C.; Noble, C. W.; O'Brian, J. H.; Ormsby, A. J.; Orr, J. A.; Peirol, A.; Pickard, J. L.; Pinnock, R. C.; Rainvasser, N.; Reid, G. J.; Reisman, F. T.; Roberts, W. D.; Robinson, R. A.; Rosenbaum, S.; Rosenberg, D.; Rosenthal, C. H.; Rumack, M.; Smith, J.; Sneddon, J. D.; Snell, D. M.; Shields, R. M.; Starkman, M. H.; Steinberg, D. M.; Stewart, P.; Strome, R. E.; Taylor, E. E.; Ticknor, R. W.; Thompson, R. M.; Thomson, D. J.; Thomson, W. A.; Turner, A. C.; Turner, J. G.; Vair, J. W.; Vickery, H. G.; Wadley, W. M.; Wagman, W.; Wardlaw, T. D.; Watkins, F. J.; Webster, G. A.; West, R. A.; Williams, P. H.; Wilson, H. V.; Yalofsky, B. L.; Yeo, E. W.; Young, J. P.

Outside Toronto

Passed: Aiton, W. D. B.; Allan, V. D.; Bateman, S. C.; Beaton, H. E.; Bendall, K. E.; Bennion, J. H.; Berry, A. W.; Beveridge, J. C.; Blake, F. G.; Booth, R. L.; Brownridge, R. G.; Capell, H. B.; Coulter, E. McK.; Cunliffe, J. A.; Dale, W. G.; Duncan, J. D.; Foster, A. E.; Gilmaster, D. R.; Grundy, W. K.; Hamilton, R. M. C.; Hemphill, J. A.; Hendershott, L. M.; Hodgins, W. J.; Holmes, D. T.; Humphrey, H. I.; Jolley, K. C.; Kennedy, M, E.; Kerr, J. D.; Knox, A.; Ladd, M. B.; Laughlin, K. A.; Marinigh, E. J.; Matthews, E. C.; McDowell, J. C.; McKinnon, W. M.; McLean, H. I.; Morrow, V.; Mulholland, C. D.; Mulvihill, G. M.; Nolan, E. P.; Pearce, L. A.; Pernfuss, W. P.; Powell, A. E.; Rankin, M. R.; Reid, E. H. H.; Roberts, M. E.; Robertson, D. R.; Rooney, J. M.; Ryley, T. E.; Scott, G. F.; Smiley, W. C.; Smith, G. C.; Tomsich, J. F.; Tretheway, G. E.; Vallance, M. A.; Waldram, W. A.; Weiler, G. R.; Wilcox, S. C.; Wood, T. A.; Wormald, K. F.

Prizewinners: Ontario Institute First Prize—J. M. Rooney.

Ontario Institute Second Prize— M. H. Starkman.

George A. Touche & Co. Active Ex-Servicemen's Prize—J. A. Cunliffe.

Primary

Toronto

Passed: Anderson, J. E.; Andrews, E. W.; Arbuckle, K. F.; Atkins, V. F.; Baird, J. A.; Bascombe, D. A.; Bass, P.; Bentley, W.; Birenbaum, A.; Brown, A. S.; Burton, D. E.; Butcher, J. W.; Caldwell, J. K.; Calvert, E. A.; Campbell, W. R. N.; Cholmondeley, F. G.; Coates, M.; Cole, D. A.; Colgate, B. J.; Cooper, A. J.; Cooper, J. W.; Davie, J. J.; Dixon, D. A.; Donovan, J. M.; Dougan, R. W. V.; Draper, E. T.; Dunlop, D.; Ellis, R. B.; Fleming, D. M.; Fine, I.; Finlay, D. J.; Gaum, E.; Geddes, J.; Gold, I.; Grant, G. M.; Griffin, W. R.; Hahn, Z. A.; Hauck, C. A.; Hewitt, A. H.; Hitchcox, A. R.; Hurdle, W. H.; Karp,

F. L.; Kates, M. S.; Keefe, A. C.; King, D. M.; Kirshenblatt, L. J.; Kraft, B.; Lass, M. H.; Levita, M. E.; Littleford, R. E.; Matheson, K. J.; Miller, J. G.; Mitchell, D. R.; Mix, R. N.; Morgan, W. J.; Morley, R. W.; Mundy, G. H.; McCurry, T.; McDonell, R. J.; McEwen, D. R.; McLeod, G. D.; McMulkin, P. B.; MacNeil, J. J.; McTaggart, E. F.; Pascaris, J.; Pauloff, N. D.; Philipchuk, S.; Posner, Z.; Pyzer, A.; Raymon, A.; Rochwerg, N. M.; Roe, R. G.; Salak, M. A.; Sanderson, W. J.; Sherman, J.; Smith, N. A. M.; Smith, R. A.; Spicer, F. R.; Stainsby, J. A.; Stone, M. O.; Tait, H. G.; Telfer, J. N.; Tessis, J. J.; Thomerson, W. C. R.; Toogood, D. F.; Webb, H. W.; Webb, R. L.; Wheeler, A. W. J.; Whelan, W. J.; Wickens, E. A.; Winship, R. C.; Woodward, C. K.; Zeldin, N.

Outside Toronto

Passed: Bailey, W. C.; Bayliss, F. M.; Buck, C. S.; Burt, B. L.; Campbell, J. J.; Deigal, G. B.; Dilworth, W. T.; Dixon, P. T.; Donald, G. E. B.; Dooley, P. G.; Ducharme, L. A.; Gillespie, J. S.; Griffin, L. S.; Gryschuk, W. N.; Heger, G. P.; Joyner, A. K.; Kirby, S. P.; Langhorne, J. A.; Levi, J. E.; Lightfoot, R. F.; Massicotte, W. J.; McCarter, H. J.; McDonald, F. B.; McGarvey, W. J.; McGill, B. E.; McRae, R. H. M.; Mealley, G. B.; Minns, B. E.; Moore, C. H.; Morton, R. T.; Osmond, R. C.; Ouellette, E. H.; Owen, E. E.; Phillips, J. A.; Priest, S. J.; Ritchie, D. J.; Robb, D. B.; Scott, R. J.; Shepard, A. B.; Shepherd, J. L.; Shinner, H. J.; Simms, W.; Smith, W. N.; Steer, J. G.; Taylor, J. T.; Walker, A. W.; Wimberley, Eric G.; Wyse, C. H.

Prizewinners: Ontario Institute First Prize—R. H. McRae.

Ontario Institute Second Prize—A. Birenbaum.

PRINCE EDWARD ISLAND

Final

Passed: Ives, L. H.

Granted supplementals: Garrett, A. J.; Hogg, N. L.

Intermediate

Passed: Hickey, C. C.

Primary

Passed: Hennessey, H. R.; Manning, R. D.

QUEBEC

Final

Passed: Abramovitch, Sam; Alper, Harold; Bannan, William George; Black, James Thompson; Boivin, J. Henri; Boyce, Wm. H.; Burstein, Louis; Carstairs, Harold L.; Cassidy, Dermod P.; Chazan, A. B.; Chown, D. R.; Cockfield, Robert N.; Dennick, Hyman; Diamond, Hyman; Driscoll, Miss M. C.; Dunwoody, W. A.; Epstein, Lionel E.; Fortier, Donald; Grief, Carl; Hughes, Frank; Jalbert, Camille; Katz, Morton A.; Kearney, James T.; Ladouceur, H. A.; Latendresse, Roger; Lawrence, Peter A.; Lighter, Saul; Lyons, Miss Marjorie A.; Marcoux, Jean-Paul; Martin, John Allen; Mercure, L. Claude; Miller, Leon L.; Nakashima, K.; Parisien, Jean; Rennie, John Hamilton; Rosen, Philip; Sabler, Selwyn R.; Share, Eli; Taylor, Peter John; Wager, Miss Kathleen P.; Zidle, Carl Jacob.

McGill Licentiate Students: Berlind, George; Colbert, E. S.; Cook, D. W.; Fitchett, George W.; Goldberg, Rubin; Gruberman, J.; Holland, A. T.; London, Irving; MacTier, E. S.; Poole, Ross A.; Sharratt, R. F.; Winter, Samuel; Woods, George W.

L'Ecole de Commerce de Laval Licentiate Students: Corriveau, Lionel; Gagné, Albert; Lachance, Georges; Racine, Robert; Renaud, Gérard; Vaillancourt, Pierre.

Granted supplementals: Bergeron, Maurice; Bernier, Marcel; Bertrand, Leopold; Borlase, James O.; Calder, Murray D.; Charbonneau,

Jean; Chevrier, Paul F. M.; Depatie, Alfred; Dostaler, Jos. René; Farquhar, E. A.; Fournier, Jean-Pierre; Gauthier, Jos. J. R.; Gibb, A. T.; Gold, Joe Sam; Jarrett, Allen Edwin; Jones, Lloyd N.; Langevin, Rosaire; Lemieux, Jean Marc; Mann, Hervey; Olioff, S.; Rennie, Donald F.; Ross, Duncan D.; Rudy, Arthur A.; Rutherford, Stuart J.; Sandilands, George D.; Shinder, Hyman M.; Shragie, A.; Stewart, Kenneth J.; Turley, Vernon; Villeneuve, Bernard; White, Miss Diana B.; White, Gordon Talbot; Worrall, F. Lloyd; Yule, Wm. F.

McGill Licentiate Students: Bell, A. G.; Berman, Wilfred; Bessner, Lawrence; Cherry, Raymond P.; Gerchicoff, J.; Gertel, Wm.; Gibson, Blair B.; Goldberg, Dan; Goodeve, A. G.; Haldimand, John F.; Hamilton, E. A.; Jackson, Peter; Madill, J. A.; Membery, Robert E.; Mitchell, H. E.; Neale, A. C.; Wight, J. B.

L'Ecole du Commerce de Laval Licentiate Students: Allen, Louis; Barry, Pierre; Blais, J.-Roland; Blouin, Jean-Paul; Gagnon, Maurice; Marquis, Jacques.

Prizewinners: Gold Medallist of the Province and second highest marks in Canada—Peter John Taylor.

Second highest marks in the Province—Jean Parisien.

Intermediate

Passed: Arbour, Gerald; Aust, Edward; Ballantyne, Ian A.; Bibby, R. T. B.; Chapdelaine, Paul; Curtis, Leonard A.; Elliott, John G.; Flight, Francis; Ford, John Edwin; Fox, Gordon; Friedman, Rubin; Gagliardi, Victor; Ginsberg, Morris; Glasspoole, Wm. L.; Hewitt, L. A.; Joyce, Marshall; Long, A. D.; Mackinnon, Ian M.; McCarther, C. R.; McCullogh, Wm. Blake; Meldrum, Stewart W.; Moore, Albert R.; O'Boyle, Kerwin R.; Pontbriand, Rene T.; Pope, Donald F.; Richard, Joffre G.; Robinson, Lyman M.; Robitaille, Eugène L.; Rosenfeld, Hyman; Selton, Henry E.; Shapiro, Sydney; Sherman, S.; Shuster, Philip; Skelton, John Murray; Stark, James G.; Wildi, Charles; Willows, Frank I. H.; Yates, James Hayes.

Prizewinners: Silver Medallist — Highest marks in the Province—Morris Ginsberg.

Second highest marks in the Province—L. M. Robinson.

SASKATCHEWAN

Final

Passed: Avant, J. C.; Bevan, H. W.; Cantlon, W. R.; Clarke, W. E.; Dickson, F. L.; Dolson, Miss W. M.; Goodale, D.; Haigh, D. C.; Hamilton, V. D.; Maimann, C. E.; Monette, C.; Robinson, L. O.; Smith, Miss V. J.; Van Iderstine, K.

Granted supplementals: Baker, G.; Fraser, G. M.; Mann, W. C.; Munro, R. A.; Scott, J. D.; Thurmeier, F. J.

Part I Final

Passed: Burroughs, R. H.; Candler, C. A.; James, C. J.; MacDonald, Mrs. M. S.; Pointer, H. J. S.; Reynolds, E. J.; Taylor, T. B.; Walker, A. S.; Whalley, H. S.; Williamson, K. G.

Granted supplementals: Foord, A. D. W.; Gander, N.; Wilson, K. L.

Prizewinners: Watson Sellar prize of $25 (for the highest marks in auditing obtained by a student who passes the full examination on the first attempt)—D. Goodale.

Intermediate

Passed: Black, A. G. E.; Chychrun, W. R.; Fox, G. N.; Mabbs, S. A.; Morrison, J. A.; Mackay, G. M.; Newhouse, J. R.; Rolfe, K. C.; Spelliscy, F. M.

Granted supplementals: Farley, E. E.; Ferguson, A. J.; Peterman, C. G.

Prizewinners: Institute prizes in Intermediate Examination—First prize to S. A. Mabbs; Second prize to J. R. Newhouse.

The Students' Department

J. E. Smyth, C.A., Editor

NOTES AND COMMENTS

ONE of the really difficult problems in accounting theory is that of deciding by rational means when a fixed asset should be discarded and replaced by a new one. We do not propose to offer a solution of our own here. It should shortly emerge that our purpose in mentioning the problem is quite different.

There have been formulae suggested such as the one that an asset is ripe for replacement when the variable costs (excluding depreciation) of operating it exceed the total cost (including depreciation) of a new piece of equipment. Some theorists have taken the matter much further, reaching quite complicated conclusions.

Another problem that requires further thought by accountants is the question of marginal costs. The cost of producing an extra (marginal) unit is not the same as the average cost of producing all units. One of the lessons of marginal cost theory is that it is not always profitable to increase output even where there may be a market for more of the product. The additional sales revenue to be realized by increasing output may not be as great as the additional (marginal) cost involved.

It is sometimes argued that accounting theory of the kinds mentioned is of no consequence because business men never use it when reaching their decisions. It is said that all this attempt to formulate the basis of business decisions both as to replacements and expansion is foolish because business men have no formulae, and would not use them if they did. They are supposed instead to use their intuition. We suggest it is a nice question whether this managerial "intuition" to which so much is ascribed is not after all a kind of vague statistical process.

In any event we think accounting theory is not to be condemned merely because it leads to complicated results and to reasoning that seems too abstruse for actual application. We have thought this for a long time without ever succeeding in being articulate about it. Recently however we came across what we think is the best answer we have seen yet to the critics of accounting theory of the kinds mentioned. By means of a very commonplace example Professor F. Machlup provides the answer as follows:

"What sort of considerations are behind the routine decision of the driver of an automobile to overtake a truck proceeding ahead of him at slower speed? What factors influence his decision? Assume that he is faced with the alternative of either slowing down and staying behind the truck or of passing it before a car which is approaching from the opposite direction will have reached the spot. As an experienced driver he somehow takes into account (a) the speed at which

the truck is going, (b) the remaining distance between himself and the truck, (c) the speed at which he is proceeding, (d) the possible acceleration of his speed, (e) the distance between him and the car approaching from the opposite direction, (f) the speed at which the car is approaching; and probably also the condition of the road (concrete or dirt, wet or dry, straight or winding, level or uphill), the degree of visibility (light or dark, clear or foggy), and — let us hope — his own condition (fresh or tired, sober or alcoholized) permitting him to judge the enumerated factors.

Clearly, the driver of the automobile will not 'measure' the variables; he will not 'calculate' the time needed for the vehicles to cover the estimated distances at the estimated rates of speed; and, of course, none of the 'estimates' will be expressed in numerical values. Even so, without measurements, numerical estimates or calculations, he will in a routine way do the indicated "sizing up" of the total situation. He will not break it down into its elements. Yet a 'theory of overtaking' would have to include all these elements (and perhaps others besides) and would have to state how changes in any of the factors were likely to affect the decisions or actions of the driver. The 'extreme difficulty of calculating', the fact that 'it would be utterly impractical' to attempt to work out and ascertain the exact magnitudes of the variables which the theorist alleges to be significant show merely that the *explanation* of an action must often include steps of reasoning which the acting individual himself does not *consciously* perform (because the action has become routine) and which perhaps he would never be able to perform in scientific exactness (because such exactness is not necessary in everyday life). To call, on these grounds, the theory 'invalid', 'unrealistic', or 'inapplicable' is to reveal failure to understand the basic methodological constitution of most social sciences."*

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* "Marginal Analysis and Empirical Research by F. Machlup, *The American Economic Review,* September 1946, cited by Leo T. Little in an article entitled "Replacement Costs — An Economist's View" in *Accounting Research,* November 1948

CORRESPONDENCE

Department of Commerce,
University of British Columbia,
Vancouver, B.C.

Sir: Upon reading the September 1949 issue of *The Canadian Chartered Accountant,* I noted a letter in the Students' Department with reference to deficits. The statement made by the writer that Finney, Smails, Montgomery, and others made no mention of the proper treatment of a deficit in a balance sheet caused me to search the texts mentioned, as well as others. I should like to point out that the treatment of a deficit is illustrated in the following places:

Finney: *Principles of Accounting, Introductory,* 1946 edition, p. 62,

Finney: *Principles of Accounting, Intermediate,* 3rd edition, 1946, pp. 132-133,

Smails: *Accounting Principles and Practice,* 1948 edition, p. 306.

I also examined various other accounting texts and found that most authors do illustrate the proper treatment of a deficit; for example, Noble, *Accounting Principles,* 5th edition, p. 384.

J. M. MOYNES
(*Associate Professor*)

Toronto, Ontario.

Sir: I was interested in reading in the September, 1949 issue your reply to the question submitted by a student from Calgary as to "what is to be done if the deficit exceeds the share capital? — ".

You state that there cannot be any balance sheet of a going concern when the deficit exceeds the capital stock. I have in mind at least two balance sheets of going concerns where the deficit does exceed the capital.

In the first instance a retail lumber business was acquired for a consideration payable by the issue of capital stock. The retail business was closed out and the assets were sold at a loss which exceeded the par of the capital stock. To meet the cash deficit a bank loan was arranged under the guarantee of individual shareholders. The company then operated on a wholesale basis. It made enough profit after taxes to pay off the bank loan and accumulated sufficient current assets to enable it to meet its trade liabilities as they became due.

In the other case, only qualifying shares (par value $1 each) had been issued so the capital stock account is shown at $3. The remainder of the capital required was arranged by way of loan from shareholders. Operating losses have created a deficit in excess of $3 but the company continues to operate.

In both cases in drafting the balance sheet, I have deducted the deficit account from the capital stock account and shown the excess in red and this amount is deducted from the total liabilities to arrive at a total which balances with the total assets. Others in the office have shown the deficit on the asset side following a subtotal entitled TOTAL ASSETS.

These are unusual cases but nevertheless, such cases do present themselves from time to time, and the student should be instructed how to present them.

Since this is the first time I have acted on the urge to write the Editor, I would like to comment, while I am writing now, on the subject of bond discount. Mr. Gray and Professor Smails have been debating this matter and I have followed the letters with interest.

I suggest that rather than have the decision based on the point of whether bond discount can be classified as an asset in order to justify putting it on the asset side of a balance sheet, you might consider using the S.E.C. caption i.e. ASSETS AND OTHER DEBITS as a title for that side of the balance sheet.

With or without that caption I have placed unamortized bond interest on the asset side, possibly without considering the academic viewpoint raised by Professor Smails.

HENRY N. JORDAN, C.A.

PUZZLE

An army four miles long is on the march at four miles per hour. A messenger goes from the rear to the front and back to the rear. The rear has now reached the point where the front was at the time he started. What was his speed?

(Our thanks to Mr. R. I. Balcom, C.A. of Halifax for this one)

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants and reflect of course the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM 1

Intermediate Examination, November 1948

Accounting II, Question 7 (20 marks)

On 1 Feb 1947 the Buy-Here Department Store Ltd was incorporated and commenced business. For the year ending 31 Jan 1948 the books were kept on a cash basis.

In Aug 1948 it was decided:

(a) to change the books from a cash basis to an accrual basis,

(b) to change the company's fiscal year end from 31 Jan to 31 Aug.

Cash transactions for the year ended 31 Jan 1948 follow:

Cash receipts:	
Capital stock, 3,000 shares @ 100	$300,000
Cash sales	336,400
Charge sales	172,000
Bank loan (borrowed on 2 month note dated 2 Jan 1948, $20,000 less discount $200)	19,800
Dividend income	4,800
Interest on bonds — 3% on $20,000 collected 1 Oct 1947	300
Total receipts	$833,300
Cash disbursements:	
Land and building (assessed values $40,000 and $120,000 respectively, life of building 15 years from date of purchase, 1 Mar 1947)	$132,000
Furniture and fixtures (life 10 years from date of purchase, 1 Mar 1947)	7,200
Merchandise creditors — purchases	388,000
Miscellaneous selling, administrative and general expenses	52,000
Officers' salaries — monthly salaries to 31 Dec 1947	66,000
Organization expenses	4,800
Fire insurance (3 year policy from 1 Mar 1947)	1,440
Real estate taxes for 1947 (Feb to Dec inclusive)	4,400
Investment in 600 shares of X Co. stock	84,000
Investment in bonds (acquired 1 Apr 1947 at face value $20,000, interest 3% 1 Apr and 1 Oct)	20,000
Dividends declared and paid	7,000
Total disbursements	$766,840

Cash transactions for the seven months ended 31 Aug 1948 follow:

Cash receipts:	
Cash sales	$224,000
Charge sales (1947-48 fiscal year receivables $24,000: 1948, $80,000)	104,000
Notes receivable (principal $40,000, interest $3,000 including accrued interest to 31 Jan 1948, $1,200)	43,000
Sale of 150 shares of X Co. stock	30,000
Dividend income (declared 23 Jan 1948, and paid 15 Feb 1948)	2,400
Interest on bonds — collected 1 Apr 1948	300
Total receipts	$403,700

Cash disbursements:

Merchandise creditors — purchases (of which $2,000 was owing 31 Jan 1948)	$246,000
Other creditors — selling, administrative and general expense (incurred subsequent to 31 Jan 1948)	24,000
Bank loan paid 2 Mar 1948	20,000
Officers' salaries — monthly salaries Jan. through July	42,000
Real estate taxes 1 Jan 1948 to 30 Jun 1948 (½ annual)	2,400
Total disbursements	$334,400

Inventory at 31 Aug 1948, at cost is $36,000.
Inventory at 31 Jan 1948, at cost is $9,125.

Memo records of receivables and payables show as of 1 Sept 1948, balances originating since 1 Apr 1948: accounts receivable $27,000, merchandise accounts payable $30,000, expense accounts payable $7,600. No notes receivable are held nor are any notes payable outstanding.

Notes receivable, collected during the seven months ended 31 Aug 1948 consisted of notes amounting to $17,600 which were received in the year ending 31 Jan 1948 and notes amounting to $22,400 received in the current fiscal period in settlement of open accounts.

Required:

From the information set forth above prepare a statement of profit and loss on the accrual basis for:

(a) the fiscal year ended 31 Jan 1948;
(b) the seven months ended 31 Aug 1948.

A SOLUTION

BUY-HERE DEPARTMENT STORE LIMITED

Statements of Profit and Loss

	(a) For year ending 31 Jan 1948		(b) For 7 months ending 31 Aug 1948	
Sales		$550,000		$353,400
Opening inventory			$ 9,125	
Purchases for period	$390,000		274,000	
	390,000		283,125	
Closing inventory	9,125		36,000	
Cost of goods sold		380,875		247,125
Gross margin		169,125		106,275
Less: Expenses:				
Selling, administrative and general	52,000		31,600	
Officers' salaries	72,000		42,000	
Fire insurance	440		280	
Real estate taxes	4,800		2,800	
Discount on bank loan	100		100	
Depreciation on buildings	6,050		3,850	
Depreciation on furniture and fixtures	660	136,050	420	81,050
		33,075		25,225

Add: Other Income:				
Profit on sale of investment			9,000	
Interest	1,700		2,150	
Dividends	4,800	6,500	2,400	13,550
Net profit for year		39,575		38,775
Less write-off of organization expenses		960		560
Balance carried to surplus		$ 38,615		$ 38,215

Working Figures

	(a) For year ending 31 Jan 1948	(b) For 7 mos. ending 31 Aug 1948
Sales		
Cash sales	$336,400	$224,000
Charge sales — Cash received to 31/1/48	172,000	
" " " 31/8/48	24,000	80,000
owing at 31/8/48		27,000
Notes receivable	17,600	22,400
Total sales	550,000	353,400
Purchases		
Paid on account to 31/1/48	388,000	
" " " " 31/8/48	2,000	244,000
Owing at 31/8/48		30,000
Total purchases	390,000	274,000
Selling, Administrative & General Expense		
Paid in cash	52,000	24,000
Owing at 31/8/48		7,600
	52,000	31,600
Officers' Salaries		
@ $\frac{66,000}{11}$ = 6,000 per month	72,000	42,000
Fire Insurance		
@ $\frac{1,440}{36}$ = 40 per month from 1st March	440	280
Real Estate Taxes		
@ 400 per month	4,800	2,800
****Organization Expenses***		
@ $\frac{4,800}{60}$ = 80 per month	960	560

Depreciation		
Buildings @ $\frac{99,000}{15} = \frac{6,600}{12} = 550$ per month	6,050	3,850
Furniture & fixtures @ $\frac{720}{12} = 60$ per month	660	420
Profit on Investment		
Sale of 150 shares X Co.		30,000
Cost of 150 shares sold = $150 \times \frac{84,000}{600}$		21,000
Profit on sale		9,000

* It is not necessary to write off organization expenses, and if one does so, he may use his own discretion as to amount.

PROBLEM 2

Intermediate Examination, November 1948

Accounting II, Question 8 (10 marks)

Coat and Cape has operated a fur farm for some years, as a partnership. The balance sheet as at 31 Dec 1947 appears as follows:

ASSETS

Cash	$ 400
Receivables	1,500
Supplies	1,200
Live-stock inventory	15,000
Land	25,000
Buildings and equipment	23,000
	$66,100

LIABILITIES AND CAPITAL

Accounts payable	$ 3,100
Mortgage (due 1 Jan 1949, interest at 5%)	18,000
Capital—F. R. Coat	25,000
B. N. E. Cape	20,000
	$66,100

The business is yielding a very high rate of return, and the partners think that future prospects are excellent. They estimate that additional equipment costing $10,000 will make possible a 100% increase in output. To raise this capital a company, Coat and Cape Fur Farms Ltd., was incorporated with an authorized capital of $100,000. The partners each subscribed for 250 shares of $100 at par, and paid these subscriptions in cash. The partners turned over to the company the assets of the partnership for a cash consideration of $75,000. The company assumed the outstanding mortgage but the partners retired all open accounts. The remaining shares were sold at par for cash.

Required:

(a) Journal entries to record the above, assuming the company continues to use the old set of books;

(b) The company's initial balance sheet.

A SOLUTION

OPENING ENTRIES

(a) COAT AND CAPE FUR FARMS LTD.

1)	Capital subscribed	50,000	
	Capital shares issued		50,000
	Coat and Cape subscribe for 250 shares each @ 100		
2)	Cash	50,000	
	Capital subscribed		50,000
	Coat and Cape pay their subscriptions in cash		
3)	F. R. Coat — Capital	25,000	
	B. N. E. Cape — Capital	20,000	
	Coat and Cape — re purchase		45,000
	To close out partners' capital accounts		
4)	Cash	50,000	
	Capital shares issued		50,000
	Remaining shares sold		
5)	Accounts payable	3,100	
	Coat and Cape — re purchase	45,000	
	Goodwill	26,900	
	Cash		75,000
	Cash paid to partners		

(b) COAT AND CAPE FUR FARMS LTD.

BALANCE SHEET
(As at 31 Dec 1947)

ASSETS

Cash	$25,400	
Receivables	1,500	
Supplies	1,200	
Stock inventory	15,000	$43,100
Land	25,000	
Buildings and equipment	23,000	48,000
Goodwill		26,900
		$118,000

LIABILITIES & CAPITAL

Mortgage (due 1 Jan 1949, interest @ 5%)	$18,000
Capital	
1,000 shares authorized @ $100 par value	
Issued—1,000 shares @ $100 par value	100,000
	$118,000

PROBLEM 3
Final Examination, November 1948
Accounting IV, Question 8 (15 marks)

"Because in most cases the replacement cost of fixed assets is, or will be, greatly in excess of the original cost thereof, the depreciation charged against revenues must be based upon the estimated cost of replacement if a true figure is to be secured for the profit for the year."

Required:

Discuss critically.

A SOLUTION

The term "depreciation" as it is used by most accountants today suggests a modest purpose. A provision for depreciation represents a means of amortizing the cost of a fixed asset over a period of years equal to its estimated useful life. It does not represent a means of ensuring that funds will be available to replace the asset by the time a decision is made to replace it.

While the present interpretation of depreciation by accountants necessarily involves an estimate of the future useful life of the asset, it is at least based upon one fact, the historical cost of the asset. The proposition put forward in the question visualizes determining depreciation either by reference to replacement cost at the date of the statement (which is often a matter of opinion) or by reference to replacement cost at the future date of replacement (which involves, in addition to the forecast of the date of replacement, a forecast of the price change between the date of the statement and the date of replacement).

Because of the difficulty in finding objective standards for estimating depreciation charges based upon replacement cost, most accountants continue to support the historical cost basis. If a change to the replacement cost basis were to be made, the accountant would want to be sure that the depreciation charge was not subject to the whims of management; and he should also insist upon an understanding in advance that the method will continue to be used in years when the value of the monetary unit is increasing as well as in those when it is decreasing.

The accountant's objection to the replacement cost basis of depreciation is, therefore, a practical rather than a theoretical one. It cannot be denied that the mechanical consistency of using present depreciation methods from year to year may in fact be upset by changes in the value of the monetary unit. This fact is recognized in the emphasis being placed by accounting theorists upon "the matching of current costs with current revenues" (as witness the discussions on the LIFO method of inventory valuation). If depreciation could be calculated objectively (and without too great expense) upon replacement cost at the date of the statement, the figure for depreciation expense would represent what the cost of the use of the fixed assets would have been had they been purchased in the current year.